

CAPCO

ISLAMIC FINANCE & BNPL

THE OPPORTUNITY AHEAD



INTRODUCTION

The rapid global growth of buy now pay later (BNPL) services is making a strong case within Islamic finance (IF), with numerous fintech firms establishing their operations and actively marketing their interest-free unsecured credit to consumers. These firms are focused on aligning their services with local regions' ethical values, Shariah compliance principles and providing a marketable alternative to their traditional

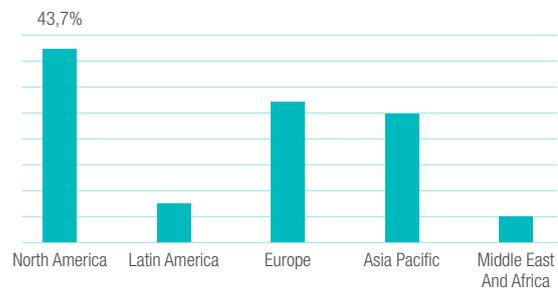
counterparts. The increase in volume and velocity of BNPL transactions has prompted regulator attention and the need for consumer protection.

This paper shares insights on BNPL today and explores the opportunities for BNPL within an Islamic finance context.

BUY NOW PAY LATER: MARKET GROWTH & KEY PLAYERS

Buy now pay later (BNPL) personal finance products allow consumers to delay or stagger payment when purchasing a product or service. This flexible credit option has grown in prominence and popularity in recent years across the UK, Europe, the US, and other markets globally, led by Swedish digital bank and leading BNPL provider, Klarna.

According to the BBC, five million people in the UK used BNPL in the past year, for total sales of £2.7billion¹. Key players such as Klarna and PayPal, via its PayPal Credit offering, have spearheaded the explosive growth of BNPL. At the same time, other providers have emerged from the IF landscape within Southeast Asia and the UAE, introducing BNPL services via their popular apps to a strong existing customer base.



Source: Buy Now Pay Later Platforms Analysis, Coherent Market Insights, July 2020²

What is happening in the BNPL space from a regulatory standpoint? While the market is growing rapidly, it is largely unregulated. In February 2021, the former FCA interim chief executive Christopher Woolard published the Woolard Review³, which recommended that BNPL products should be brought within the regulatory perimeter as a matter of urgency. This aligns with our key findings from our UK survey of consumer attitudes to BNPL, which found that more than half of consumers surveyed wanted BNPL to be regulated⁴.

The Woolard Review highlighted that: “Most of us will use credit at some point in our lives so it's vital that we have a fair market that works for everyone, new ways of borrowing and the impacts of the pandemic are changing the market with billions of pounds now in unregulated transactions and millions of consumers at greater risk of financial difficulty changes are urgently needed to bring buy now pay later into regulations or protect consumers to ensure that there is secure provision

of advice to help all those who may need it and to maintain a sustained regulatory response to the pandemic alongside these urgent issues.”⁵

The Review sets out 26 recommendations to the FCA, sometimes working with Government and other bodies, to make the unsecured credit market fit for the future. The key highlights include (1) The regulation of unregulated buy now pay later (2) Debt advice (3) Forbearance (4) Alternatives to high-cost credit and (5) Outcomes focused.

Who are the key global players?

Today's BNPL footprint showcases the widespread demand for such services. Below, we provide a snapshot of the key global providers.

BNPL Providers	Klarna	Afterpay	Clearpay	Laybuy	PayPal Credit	Affirm	Scalapay	Openpay
Founded	2005	2014	2017	2017	2000	2012	2019	2013
Country (HQ)	Stockholm, Sweden	Sydney, Australia	Manchester, UK	Auckland, New Zealand	USA	San Francisco, USA	Milan, Italy (HQ in Ireland)	Melbourne, Australia
Overview	Leading global payments and shopping service, available in 17 countries. As of March 2021, valued at \$31bn. ⁶	Payment-after-delivery service, and cross-channel post-payment services. Available in Australia, Canada, New Zealand, and the USA.	Acquired by Afterpay in 2018 and launched services in the UK in 2019.	Services in Australia, New Zealand, the UK, and USA, offering a fully integrated payment platform.	PayPal Credit can be used just about anywhere PayPal is accepted. ⁷ PayPal's 'Pay in 4' to launch in Australia from June 2021. ⁸	US-focused, offers easily accessible financing with no late fees or compounding interest. IPO in January 2021 raised \$1.2bn. ⁹	In 2021, Scalapay raised \$48m in funding to scale in Europe and break into the US market. ¹⁰	Offers BNPL payment solutions in Australia, New Zealand, the UK, and launching in the USA.
Customers	90 million ¹¹	13.1 million ¹²	1.6 million+ active user in the UK ¹³	568,000+ ¹⁴	Exact number unknown, but there are 320 million active PayPal accounts globally. ¹⁵	4.5 million ¹⁶	Currently unknown.	461,000 ¹⁷
Merchant/Retailers	250,000 ¹⁸	74,700+ ¹⁹	3,300+ ²⁰	6000 ²¹	"1000's of online stores" that accept PayPal. ²²	6,500+ ²³	1000+ across France, Italy, and Germany. ²⁴	2,766 ²⁵
Services/Products	Pay 30 days later or split cost of item into three or four equal monthly instalments. No interest or late fees apply. Fees: Financing options also available with 6-36 monthly plans, both interest bearing and interest free.	Retailers can offer instalment plans, allowing a purchase to be paid in four instalments, due every 2 weeks. ²⁶ Fees: Late fees are capped at 25% of the order value.	Pay in four instalments every 2 weeks. Fees: Late fees apply, £6 for orders below £24 and again after seven days. ²⁷ For orders of £24 or above, fees are capped at 25% of the order value or £36, whichever is less.	Interest-free payment plan, purchase today and pay further 5 equal payments, once a week. Fees: A late payment fee (£6 GBP / \$8 USD / \$10 NZD or AUD) may be charged in respect of each failed payments. ²⁸	0% for the first 6 months when you spend \$99 or more in one go. Then variable interest rate until the balance is paid off. Fees: Pay in 4 – spread 4 interest-free payments (one every two weeks) at millions of online stores backed by PayPal. ²⁹	Payment plans of 3, 6 or 12 months with an agreed interest rate between 0-30% APR. Fees: Monthly payments are shown in real dollar terms with no hidden fees. ³⁰	Purchase products immediately and pay in 3 monthly instalments which are automatically debited. Fees: Merchants receive full amount as Scalapay assume all the risks of fraud and non-payment. Late fees apply, up to a maximum of 12 euros for each missed payment. ³¹	Customers pay their first instalment, and the rest is spread over 1 – 24 months (3 – 7 months in the UK). Plans are interest-free, but late fees apply. Fees: In the UK, £7.50 fee per missed payment (capped at £15 per plan). Also offer a software-as-a-service (SaaS)-based B2B trading platform dubbed 'Openpay for Business'.

Who are the key players within Islamic markets?

BNPL services are being widely adopted in the UAE and Southeast Asia. According to a report published by Coherent Market Insights, the service is expected to expand from \$7.3 billion in 2019 to approximately \$33.6 billion in 2027 at a compound annual growth rate (CAGR) of 21.2 percent.³² Leading fintechs and existing service providers offering BNPL

options in this region include Grab, GoJek and Tabby, alongside other start-ups entering the fray, such as Tamara and PostPay.

It is important to note that within these specific markets, BNPL services are aligning with the core values of the consumer, providing interest-free credit options in adherence to Shariah Law. Below is a snapshot of the key providers in this space.

BNPL IF Players	Grab PayLater	Tabby	Spotii	PostPay	Tamara
Founded	2012	2019	2020	2020 ³³	2020
Country (HQ)	Singapore	UAE	UAE	UAE	Riyadh, Saudi Arabia
Overview	Grab is an app that provides transportation, logistics and financial services. Offers services in 7 countries across South East Asia. PayLater is their BNPL service. ³⁴	Tabby operates across the UAE and Saudi Arabia. Its products are stated as Shariah compliant. ³⁵ Tabby is backed by 14 key investors in a series A funding with a total funding amount of \$32M. ³⁶	Private tech start-up operating in UAE and Saudi Arabia with a corporate funding round by Zip Co., an Australian BNPL fintech. ³⁷	UAE based start-up launched in 2020 backed by private investors (including U.S. VC investors). ³⁸ Services available in UAE only but is branding itself as a global BNPL service. ³⁹	Developer of a buy-now, pay-later financial platform intended to empower people to buy and shop in a transparent way. ⁴⁰ As of January 2021, \$6.00M raised in see round. ⁴¹
Customers	60 million ⁴²	Not publicly available	Not publicly available	Not publicly available	Not publicly available
Retailers/ Merchants	Grab has a large merchant network, covering more than 600,000 merchants. ⁴³	200+ local and international merchants on its site, ⁴⁴ including the likes of IKEA, M&S, Splash. ⁴⁵	100+ merchants. ⁴⁶ Mainly consisting of local homegrown brands with a focus on fashion, beauty and lifestyle.	80+ local and international brands on their shop directory including the likes of Kcal, XDubai, Dermalogica, Dubai Audio and Squat Wolf. ⁴⁷	100+ merchants which include international and local brands. Recent announced partnership with Toys R Us. ⁴⁸
Services/ Products	Product offering to customers is referred to a PayLater with no interest and no hidden fees when spreading payments. There are currently 2 offerings within PayLater (1) Pay in 4 monthly instalments (2) Pay the next month. ⁴⁹ The PayLater solution also allows users to consolidate their purchases on grab products, e.g., Grab rides, GrabFood, GrabExpress to make a single payment at the end of the month. ⁵⁰ Fees: No interest charged. If you do not pay your monthly bills by the due date, you will be charged a \$10 admin fee. ⁵¹	Customers can check out without entering their credit or debit card details in store or online and can choose to pay within 14 days or agree to interest-free instalments for up to six months. ⁵² Fees: Late payment fees of 15 dirhams 1 day after missed payment; additional 30 dirhams 14 days after the missed payment; additional 60 dirhams 28 days after the missed payment. ⁵³	Split consumer purchases in 4 interest-free instalments with the first 25% paid immediately. The platform earns revenue from the merchants, who pay a percentage of the order value. ⁵⁴ Fees: No interest charged. Late fees charged by Spotii are capped at either 25% or Dh40 (whichever is lower). Claimed to be "the lowest in the market". ⁵⁵	Allows shoppers to pay for products in instalments with zero interest and zero transaction fees using best-in-class technology. 3 payment solutions (1) Pay Now (2) Pay in Two (3) Pay in Four. ⁵⁶ Fees: There are no service fees or interest associated. (1) Missing the first payment will incur a charge of AED 25 fee. (2) If the relevant Instalment Payment has not been settled within 10 days after the Due Date then a charge of AED 35 will be incurred. However, the aggregate sum of Late Fees associated with a particular order will not exceed 25% of the order value at the time of purchase. ⁵⁷	The company's platform allows merchants to offer flexible payment options by using its application programming interfaces (APIs) or plugins with the options to pay in 30 days or pay in 3 instalments, enabling businesses to offer a variety of payment options and increase sales. ⁵⁸ Fees: Tamara charge late fees if a customer does not pay within the 30-day limit (SAR/AED). All late fees are donated to government-approved charities. ⁵⁹

WHAT WOULD AN ISLAMIC FINANCE BNPL OFFERING LOOK LIKE?

Current leading BNPL service providers are not Shariah compliant for two key reasons:

1. Interest is charged when a payment is missed, or if the customer chooses to convert their payment to monthly installments over a longer term
2. The lack of an Aqd (Islamic contract) between the BNPL provider (as lender) and the consumer (as borrower). BNPL providers lend money to borrowers for goods and services purchased from retailers. This transaction is asset backed which conforms with one of the tenets of IF, but the lack of Aqd makes it non-compliant. There is also the element of allowing individuals to buy goods that are prohibited under Shariah laws.

How would an Islamic Finance BNPL product work?

For an IF BNPL product to work in a compliant manner, it must fulfil the following criteria:

1. The user can register for BNPL services through an app or website. This includes some form of verification, uploading required documentation and a soft credit check to ensure that the user is eligible borrow funds from the service provider. This should provide the user with the ability to use a basic service: buy now pay 30 days later; or two split payments – half today and half next month; or via four instalments, either every two weeks or on a monthly basis. All options would incur no interest.
2. If the client wants to opt for a longer tenure (six weeks to 24 weeks), then a hard credit check will be initiated, and a credit limit assigned to the customer. The customer can then convert any purchases within the credit limit.

3. The user can go to any partner retailers and select the BNPL payment option at checkout and choose one of the allowed payment options. The BNPL provider and the consumer enter into a **Murabaha** agreement, through which the financing of the goods/services is provided by the provider on a cost-plus financing basis. Any fees arising from the transactions can be charged under the concept of **Ujrah** which allows the companies to levy a financial charge on the services provided.
4. The user receives the goods and/or services for which the payment was made.
5. The amount is deducted (as per the plan selected by the user during checkout) at the regular intervals.
6. Penalties are levied for any missed payment but should be via a fixed charge that is clearly specified and should not have any compounding factor.

An added feature of the IF BNPL offering can be an option for the customer to subscribe for **Takaful** coverage (an Islamic form of insurance) where any defaults or missed payments are covered. This means the service can be beneficial for all without creating unnecessary debt for its customers.

More importantly, the IF BNPL offering should not be about making money through missed payments but enabling customers to have the freedom and power to purchase goods, and thus increase the volume and velocity of transactions between consumers and retailers in a safe and consumer friendly manner.

KEY CHALLENGES

There are certain challenges that the BNPL industry is already facing, not least reputational, having been tagged as ‘a debt trap’ for young people.⁶⁰

BNPL gives the customer a ‘try before you buy’ option, allowing them to also ‘pay later’. If the user clicks this payment method, and it is accepted, they can wait up to 30 days to pay for their online order, and sometimes also have the choice of splitting the payment into smaller instalments; thus, allowing customers to buy what they want, return what they do not like, and pay only for the goods they keep. Over time, however, this has morphed into a service that potentially allows customers to spend beyond their means.

The other challenge is around the terms and conditions of these services. Customers are often lacking in financial literacy and credit knowledge, specifically around the implications of converting payments into installments, or how missing a payment can affect their credit history or score. There is also the question of the fine print relating to services like ‘Slice It’, where payments can be converted to equated monthly installments (EMIs) ranging between six to 24 months.

There are concerns that fintech companies, through cutting-edge technologies and the inherent ease and use of mobile apps, can make BNPL options seem like a lifestyle choice and downplay the fact that the user is taking on debt. Indeed, in our survey, we found that 44 percent of those surveyed were unsure whether BNPL meant ‘taking on debt’ or ‘deferring a payment’. Among younger respondents (18 – 34 years) this rose to a total of 57 percent.⁶¹

From an Islamic finance point of view, there are areas which may present their own set of obstacles when it comes to BNPL.

Lack of regulation around the IF BNPL market

As BNPL is an unsecured lending product, none of the existing Islamic regulatory bodies would be quick to provide guidance on how to regulate BNPL products or highlight areas where they might not be Shariah-compliant. That being said, as long as the IF BNPL solutions being offered are not charging interest (prohibited), and unreasonable fees are not charged to the customers using the services or missing the payments, we do not see a challenge in such products being rolled out to the IF consumers.

That said, there are questions around how different government regulatory bodies would interpret the rules and regulate the services that provide unsecured loan to the consumers.

Product to be compliant with all IF markets

Working around regulations in a specific market carries its own set of challenges – but working around different set of regulations across different Islamic markets presents further complexities still. There is no single Islamic regulatory body, and different countries have different interpretation of Shariah law. Standardization can play a very important role in the future of BNPL in Islamic finance, with a core product concept clearly laid out and add-ons planned for different regions to accommodate permissible local offerings.

Also, it is important to engage Shariah scholars or SMEs at the product development phase to ensure companies are creating offerings that are compliant, scalable and within budget. Brand recognition across different IF markets can be key here, given the propensity for these services to be viewed as a lifestyle choice among the younger generation.

Individual credit worthiness and optics

For such offerings to be adopted widely in IF markets, it is vital that these services are not seen as either a debt trap or being incorrectly advertised in terms of hidden fees and charges. It is important for the firms to be transparent around the different terms and conditions involved and the effects of not being able to make the payments in due time.

Islamic finance BNPL firms should look at this as an opportunity to be clearer around the terms of these services. They should assess an individual's creditworthiness before offering the services to convert the payments into EMIs. For a start, the basic BNPL service to buy now and pay 14/30 days later could be offered to all clients. A credit check could be conducted for those clients willing to opt for converting the payments to EMIs, with a credit limit can then be assigned to them. The clients can remain within the agreed limit as they make purchases, converting their spending into manageable installments.

Profitability

With no interest or an excessive fee structure, the onus would be on IF firms in the BNPL space to keep the venture profitable. As this provides an opportunity to be in the payments space and offer payment services to different online vendors, it should be a business model built on maximizing the revenue from interbank fees, payment services and specialized product placement by the vendors on BNPL apps or websites.

If the services are promoted in the right manner, as a convenient way to pay and an affordable credit alternative, both the BNPL firms and vendors subscribing to these services can benefit.

Competition

There is a lot of activity happening in the BNPL industry right now. Although there is opportunity for new players to grab a share of the market, they are expected to face stiff competition from both the conventional and IF players. UAE has seen five new players in the market in recent times and Saudi have two firms already operating in the space. Malaysia has seen two fintech recently entering the market and a few more joining the fray shortly. Some of the existing players do operate in the no-interest space, making them Shariah compliant in a sense, but a major concentration of these firms are only operating in the UAE.

There is certainly appetite for new firms in the market, so long as they drive the idea of responsible spending, keep their processes simple, have better retailer partnerships and add-ons, and can bring in big ticket purchases like jewelry, flight tickets, holidays into the mix. Another feature that the BNPL providers can integrate into their offerings is to allow customers to choose the Pay Now option at checkout, but retrospectively (within 14 days of payment) offering them the option to convert that into EMIs.

Providers can also focus on better customization such as providing option to consumers to choose the payment date or option to delay one of the payments by a month as an add on helps build trust with the customers.

DIFFERENT WAYS BNPL CAN BE IMPLEMENTED

BNPL is a broad concept, and as a product, there are multiple ways that it can be implemented. Let us look at the most common approaches:

1. Integrated payment solution with retailers

One of the most common form of a BNPL solution is the one integrated at the point of sale. The user can choose this as a payment option during checkout and select to convert it into three, six, 12 or 24 easy payments to be debited monthly. The service providers can offer their own app as well, providing opportunities for product placements and complete integration with retailers, allowing items to be directly and seamlessly purchased via the app without having to visit the retailer's website.

2. Credit card / Current account integrated solution

Another option is to provide a digital or physical credit card to the consumers, whereby purchases can be automatically converted into installments by default. One BNPL provider

charges 25 percent of the payment upfront and 25 percent every following two weeks until the balance is settled. This option offers some of the benefits of the integrated BNPL provider offerings, such as access to limited credit balances to keep spending in check, the option to snooze your payment for a period of days, and integration with digital wallets.

3. Retailers' checkout option

To take advantage of the BNPL trend, some retailers have started offering BNPL as an option on their websites. The user can enter their debit or credit card number and the payments will then be posted as per the agreed terms. The responsibility for collection of payments, and any associated risks, lie with the retailers.

Out of the three approaches outlined, the first – integrated payment solutions with retailers – is the most popular approach across the globe, with most major players operating in this space. However, we are seeing some emerging providers looking at the alternative approaches to keep costs in check and provide enhanced benefits to consumers.

HOW THE FEES/CHARGES COMPARE WITH CONVENTIONAL BNPLS

As most of the IF BNPL players do not promote conversion of transactions into long duration EMLs, the maximum duration that one of the players allow is for six months. Let's take a look at how the IF players compare against the conventional players in terms of fees charged to the merchants and customers.

a.) Comparison of merchant fees

There is not a great deal of difference between the conventional and IF BNPL players on how much they charge the merchants. The fee is dependent on certain factors like the payment plan chosen by the customer, the volume and average transaction size of the merchant.

Comparison of financials	Conventional BNPL players	IF BNPL players
Merchant fees	£0.20 + variable up to 5.99% or 4% to 6% depending on the transaction frequency and turnover. ⁶²	Pricing is based on a percentage (market standard variable 4% to 6%) + 1 AED/SAR per successful tabby transaction. ⁶³

b.) Comparison of consumer fees

Consumer fees and charges vary for each of the BNPL providers whether this is conventional or IF. It also can change depending on the payment plan chosen by the customer from (i) Pay 30 days later, (ii) Pay in Instalments or (iii) Financing.

1. Buy Now Pay 30 days later

No fees charged by the conventional BNPL player and nominal fee charged by the IF BNPL player.

Service Offering	Conventional BNPL player - Klarna	IF BNPL player – Tamara
Buy Now Pay 30 days later	No interest, no fees. No late payment fees.	No Interest. 25 AED for missed payments (approx. £5 equivalent) – this is donated to charity.

2. Buy Now Pay in 4 instalments

Most of the IF BNPL players have lower late fees compared to their conventional counterparts for this given payment method.

Service Offering	Conventional BNPL player – ClearPay	Conventional BNPL player – Klarna	IF BNPL player – Spotti
Buy Now Pay in 4 instalments Fees/ Charges	For orders below £24, one late fee for £6 may apply. For orders above £24, total fees can be applied is 25% of the order or £36, whichever is less.	No fees.	A nominal fee of AED 20 would apply for each delayed payment, with a maximum of two late fees per order. The total late fee is capped at 25% of the total order price or AED 40, whichever is lower.
Scenario – Client purchases shoes worth £200 and misses all 3 due payments	Late fees charged – £36.	No fees.	Late fees charged – 40 AED (£8 equivalent).

3. Buy Now Pay Later – 6 months

No financing options are greater than six months for IF BNPL players. On average, the total cost of financing will be higher with the conventional BNPL players.

Service Offering	Conventional BNPL Player – Klarna	Conventional BNPL Player – Openpay	IF BNPL player – Tabby
Buy Now Pay in 6 instalments Fees/ Charges	Financing charge – up to 18.99 APR Late payment fees – up to £12	Late payment fee of up to £7.50 for missed payment and the payment is still unpaid 2 days after the payment is due. Second late payment Fee of £7.50 if the payment is still unpaid 10 days after the payment is due.	No charges for instalments up to 6 months. No longer duration options available Late payment fees of 15 dirhams 1 day after missed payment; additional 30 dirhams 14 days after the missed payment; additional 60 dirhams 28 days after the missed payment.
Scenario – Client purchases a jacket worth £1000 and misses the last payment by a month	Cost of Credit – £51.70 Additional interest for one month – £ 2.6 (approx.) Late fee – £12 Total cost – £66.30	Cost of Credit – £0 Late fees – £15 Total cost – £15	Cost of Credit – £0 Late fees – AED 105 (£20.50 approx.) Total cost – £20.50

KEY MARKETS FOR ISLAMIC FINANCE

BNPL products offer the kind of service and convenience that consumers globally are increasingly coming to expect when shopping. Likewise, there are some IF markets where BNPL offerings have real potential to appeal to the general public and quickly gain popularity. It should however be noted these countries have varied standards of wealth across their population, with some having lower acceptance of electronic payments and predominantly using cash as a primary way to transact.

Malaysia

With their IF products providing a real alternative to conventional products, now amounting to 50 percent of the banking and payments market, Malaysia is a key location for BNPL services. The APAC region is expected to become the world's fastest-growing BNPL market due to the rising number of internet users.

2020 within Southeast Asia, around 40 million new users joined the digital economy which brought the total internet users in the region to around 400 million, according to estimates provided by the e-Economy SEA Report in 2020.⁶⁴ According to Mastercard study in 2020, Malaysia leads the shift to digital wallets with a 40 percent usage.⁶⁵

In addition to the number of users joining the digital bandwagon, Malaysia's e-commerce market is growing rapidly with revenue growth of 24.1 percent expected in 2021. This surge in the digitalization of the retail sector and the popularity of BNPL solutions with the younger demographic makes it a perfect market for introduction of new solutions.

Saudi Arabia

The Middle East and North Africa (MENA) bloc is seeing high growth in the fintech market which is projected to hit USD2.5 billion by 2022. Saudi Arabia, with its recent financial reforms, the opening of its economy in a drive to move away from the conventional reliance on oil and gas, and privatization efforts has

seen huge growth in its fintech sector. Sustained support from government means quick and easy launch of new and improved financial services offerings for consumers.

As the economy opens further, it presents a unique opportunity for the BNPL firms to launch their services and capture a fair share of the growing market.

UAE

A country that features two of the most cosmopolitan cities in the world, UAE might be saturated as far as BNPL firms are concerned with six players already in the market, but it also provides a good marketplace as customers are well informed about these services. It eases the burden of educating customers and provides an opportunity for new players to provide a platform with additional features and better integration with the retailers.

Indonesia

With low credit card penetration at just 0.07 credit cards per capita, and consumers looking for options to maintain their cash flow and handle sudden personal and business expenses, Indonesia is a market where the popularity for BNPL solutions has escalated rapidly.

UK

The UK is now the established hub for Islamic finance in Europe, with five fully Shariah-compliant banks and IF assets totaling some USD6 billion.⁶⁶ The UK's Muslim population now numbers approximately 3.37 million citizens – around 5.9 percent of total UK population – and over a third are aged under 16. It is natural to assume that with all other IF services, including peer-2-peer lending and digital banking solutions, Islamic consumers would take the Islamic version of BNPL services.

CONCLUSION

BNPL programs have seen tremendous growth globally. These services fulfil a major consumer need and provide a financial alternative to consumers that is both simple and effective. This is vital for the Muslim population in developed and developing economies alike, as these services can, when used sensibly, be an effective tool to manage unexpected expenses and preserve monthly cash flow.

The UK's Woolard Review urges the regulation of these services to keep consumers protected and treated fairly and highlights questions around debt and credit worthiness. Introducing Shariah-compliant offerings would solve many of these issues, as the focus of Islamic finance BNPL solutions would be on providing interest-free credit, with reasonable charges and

an emphasis on mutual benefit, rather than any potential exploitation of customers through late payment and other fees. We are certain that an ethical BNPL service built around fair trading and the wellbeing of the wider community would also appeal to the broader UK population.

From an Islamic finance perspective, BNPL services provide an opportunity to tap into a market which is rapidly changing the way customers interact with e-commerce and online spending. Focusing on key markets and handling the different challenges that this new category of credit introduces, remains vital in ensuring that the principles of Islamic finance are preserved, while providing the range of benefits that BNPL solutions offer.

WHY CAPCO?

Whether you are deciding if you should enter the BNPL market, have made the decision and want to design your proposition, or are looking to accelerate the launch of your BNPL product into the market, Capco can help.

We combine industry expertise in banking and payments with strategy, proposition design, product development,

and delivery capabilities to help clients make better decisions, and execute them more effectively.

We can help shape this proposition through our deep industry expertise within digital, technology and regulation and unlock the full potential of services offered by BNPL in markets that Islamic finance providers operate in.

REFERENCES

1. <https://www.bbc.co.uk/news/business-55895162>
2. <https://www.coherentmarketinsights.com/market-insight/buy-now-pay-later-platforms-market-4013>
3. <https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>
4. <https://www.capco.com/intelligence/capco-intelligence/a-uk-survey-of-consumer-attitudes-to-bnpl>
5. <https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>
6. <https://techcrunch.com/2021/03/01/invest-now-sell-later/>
7. <https://www.paypal.com/us/smarthelp/article/what-is-paypal-credit-and-where-can-i-use-it-faq4150>
8. <https://www.savings.com.au/buy-now-pay-later/paypal-takes-on-afterpay-with-bnpl-offering>
9. <https://www.reuters.com/article/us-affirm-holdings-ipo-idINKBN29I00E>
10. <https://techcrunch.com/2021/01/28/scalapay-raises-48m-to-scale-its-buy-now-pay-later-service-in-europe/>
11. <https://www.klarna.com/international/about-us/>
12. <https://www.prnewswire.com/news-releases/afterpay-reports-record-sales-of-10b-in-first-half-2021-301235355.html>
13. <https://www.prnewswire.com/news-releases/afterpay-reports-record-sales-of-10b-in-first-half-2021-301235355.html>
14. https://www.altfi.com/article/7188_sales-soar-at-klarna-rival-laybuy-as-buy-now-pay-later-sector-hots-up
15. <https://www.livewiremarkets.com/wires/is-paypal-a-threat-to-australia-s-bnpl-sector>
16. <https://www.affirm.com/press/releases/affirm-reports-fyq2-2021-results>
17. <https://www.afr.com/companies/financial-services/openpay-wants-to-take-buy-now-pay-later-upmarket-20191213-p53jst#:~:>
18. <https://www.klarna.com/international/about-us/>
19. <https://www.prnewswire.com/news-releases/afterpay-reports-record-sales-of-10b-in-first-half-2021-301235355.html>
20. <https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/03/Afterpay-Limited-Half-Yearly-Report-HY21.pdf>
21. <https://www.businesswire.com/news/home/20200921005668/en/Laybuy-Launches-Partner-Programme-to-Help-Retailers-Capitalise-on-Buy-Now-Pay-Later-Demand>
22. <https://www.paypal.com/uk/webapps/mpp/paypal-virtual-credit>
23. <https://www.meritechcapital.com/blog/affirm-ipo-s-1-breakdown#>
24. <https://www.prnewswire.com/news-releases/scalapay-raises-48m-to-give-thousands-of-merchants-a-single-payment-solution--access-to-1m-merchant-referrals-301213355.html>
25. <https://investors.openpay.com.au/site/PDF/c20594ba-9bcc-4a1d-a94f-c9ed22a9ea29/OPYH1FY21ResultsPresentation>
26. <https://help.afterpay.com/hc/en-us/articles/217425866-How-does-Afterpay-work-#>
27. <https://help.clearpay.co.uk/hc/en-gb/articles/360026261512-Is-there-a-cost-for-using-Clearpay->
28. <https://help.laybuy.com/hc/en-us/articles/360022244234-How-does-Laybuy-work->
29. <https://www.paypal.com/us/webapps/mpp/credit-line-and-card-services>
30. <https://www.affirm.com/how-it-works>
31. <https://scalapay.zendesk.com/hc/it/articles/360034326554-Cos-%C3%A8-Scalapay>
32. <https://www.coherentmarketinsights.com/market-insight/buy-now-pay-later-platforms-market-4013>
33. <https://www.difc.ae/public-register/postpay-technology-limited/>

REFERENCES

34. <https://www.crunchbase.com/organization/grabtaxi>
35. <https://business.tabby.ai/faq>
36. <https://www.crunchbase.com/organization/tabby>
37. <https://www.crunchbase.com/organization/spotii>
38. <https://www.arabianbusiness.com/banking-finance/450083-shoppers-taking-advantage-of-buy-now-pay-later-platforms>
39. https://www.zawya.com/mena/en/press-releases/story/Postpay_launches_new_products_across_partner_retailers_in_the_UAE-ZAWYA20200618151521/
40. <https://pitchbook.com/profiles/company/459147-07#overview>
41. <https://business.tabby.ai/faq>
42. <https://techcrunch.com/2017/11/01/grab-takes-a-big-step-into-digital-payments/>
43. <https://www.adyen.com/blog/grabpay-enabling-smoother-safer-payments-in-southeast-asia>
44. <https://tabby.ai/#where-to-shop>
45. <https://tabby.ai/stores/popular/>
46. <https://www.spotii.me/shop-directory>
47. <https://thefintechtimes.com/postpay-launches-new-products-across-partner-retailers-in-the-united-arab-emirates/>
48. <https://tamara.co/en/stores-directory.html>
49. <https://www.grab.com/my/finance/pay-later/>
50. <https://www.grab.com/my/press/business/grabpay-expands-breadth-of-merchants/>
51. <https://www.grab.com/sg/finance/pay-later-old/instalments/>
52. <https://tabby.ai/>
53. <https://business.tabby.ai/termsandconditions>
54. <https://www.spotii.me/how-it-works.html>
55. <https://www.thenationalnews.com/business/money/six-new-ways-to-buy-now-pay-later-in-the-uae-1.1033700>
56. <https://thefintechtimes.com/postpay-launches-new-products-across-partner-retailers-in-the-united-arab-emirates/>
57. <https://postpay.io/terms>
58. <https://pitchbook.com/profiles/company/459147-07#overview>
59. <https://www.tamara.co/en/faq.html>
60. <https://www.thesun.co.uk/money/13680058/debt-warning-buy-now-pay-later-christmas/>
61. <http://www.Capco.com/bnpl>
62. <https://www.klarna.com/us/business/pricing/>
63. <https://business.tabby.ai/faq>
64. <https://economysea.withgoogle.com/>
65. <https://www.soyacincu.com/2020/06/24/mastercard-impact-study-2020-malaysia-leads-ewallet-usage-sea/>
66. <https://www.arabnews.com/node/1779491/middle-east>

CONTACTS

Ian Hooper, Partner
Head of Banking & Payments
Ian.Hooper@capco.com

Tej Patel, Partner
Regulatory Practice Lead
Tej.Patel@capco.com

Mohsin Khan, Principal Consultant
Islamic Finance Capability Lead
Mohsin.Khan@capco.com

AUTHORS

Rahul Lalwani
Saadat Sabur

ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

To learn more, visit our web site at www.capco.com, or follow us on Twitter, Facebook, YouTube, LinkedIn and Instagram.

WORLDWIDE OFFICES

APAC

Bangalore
Bangkok
Gurgaon
Hong Kong
Kuala Lumpur
Mumbai
Pune
Singapore

EUROPE

Berlin
Bratislava
Brussels
Dusseldorf
Edinburgh
Frankfurt
Geneva
Munich
London
Paris
Vienna
Warsaw
Zurich

NORTH AMERICA

Charlotte
Chicago
Dallas
Hartford
Houston
New York
Orlando
Toronto
Tysons Corner
Washington, DC

SOUTH AMERICA

São Paulo

WWW.CAPCO.COM



© 2021 The Capital Markets Company (UK) Limited. All rights reserved.

CAPCO