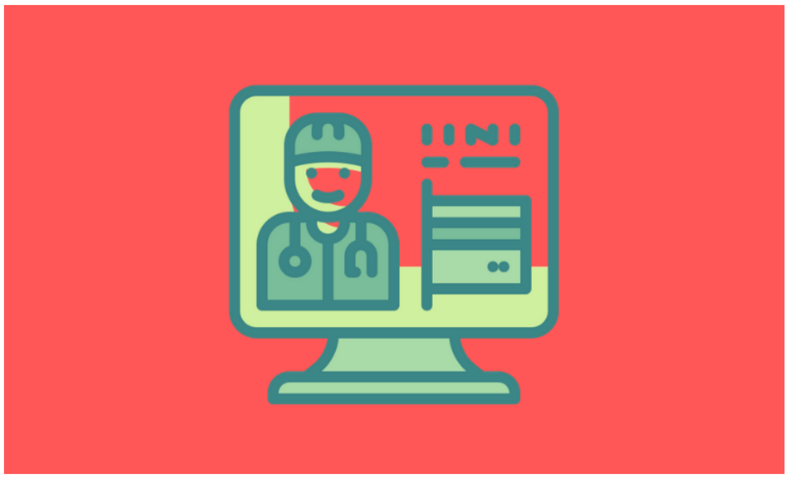
MEMBER EXCLUSIVE, PAYMENTS

Looking to the future: Healthcare is the next frontier for Buy now, Pay later

Walnut is one of a few lending apps that strives to make healthcare more affordable in the US.

Experts believe that there are opportunities for growth in the healthcare, service and travel industries over the next few years.

SHEHZIL ZAHID | **APRIL 20, 2021**



A few years ago, Roshan Patel watched a hospital slap a relative with a $5,000 medical bill for a fractured leg after she was hit by a car while out for a run. Patel recalls the experience being terrible for the family because the hospital would not lower the bill. Eventually, the hospital threatened to send the family to collections, who eventually threatened to sue them.

“It stood out to me as a compelling problem,” says Patel. “A bill of that size can just derail your life financially for a lot of Americans.”

Patel is now the founder and CEO of Walnut, an embedded lending app that makes healthcare more affordable for patients by breaking up large medical bills into small, monthly payments. Currently, Walnut is just one of a handful of healthcare-centric buy now, pay later firms in the market.

With patients suffering from medical debt, hospitals struggling with uncompensated care and no major BNPL making a play just yet, leading industry figures believe that healthcare is the new frontier for BNPLs. They also anticipate opportunities for BNPLs to expand into different verticals over the next few years, such as service and travel. However, increasing use of BNPLs is leading to a debt issue that experts believe US regulators will address within the next year or two.

Michael Wong, MD, a physician at New York City Health and Hospitals, is Patel’s co-founder at Walnut, and he says that half of Americans have received a medical bill they cannot afford. In fact, medical debt is the number one cause of bankruptcies.

“BNPL has really revolutionized what’s affordable and what’s not,” says Wong. “However, healthcare moves slow and repayment options are old and antiquated.”

Wong adds that the amount of uncompensated care for hospitals is huge and while patients suffer from medical debt, hospitals suffer from closures. Since 2000, hospitals have given out more than $660 billion in uncompensated care and about 50 hospitals filed for bankruptcy in 2020.

Moreover, Wong says the healthcare industry is a free market for BNPLs, since there isn’t a large BNPL player in the industry right now. Walnut hopes to be the go-to name for BNPL in the healthcare space. Their closest competitor is PrimaHealth Credit, which has been around longer and has a broader range of services that includes elective care as well as outpatient care in categories like addiction treatment. However, PrimaHealth Credit also charges interest that ranges from 20%-25% with an average loan size of around $1,800. Walnut charges no interest or fees, and its average loan size is between $3,000-$5,000.

Currently, Walnut’s services are limited to elective care, which includes categories like dentistry, cosmetic surgery, fertility, vision and dermatology. Patel says elective care providers are smaller and easier to sign up, which is important because Walnut is an early-stage startup that only went live some seven months ago, but Patel's vision for Walnut is far broader. He wants to see Walnut working with hospitals and healthcare providers. Specifically, he wants to expand the service into emergency rooms, where most unplanned medical expenses occur, and he hopes to see Walnut in all 50 states by the end of the year with over 1,000 providers.

"In five years, our vision is to be carrier agnostic," says Patel. "So no matter where you are in the healthcare system, you can use Walnut to break up your medical bill into a monthly plan."

While healthcare in the US is notoriously its own ball of yarn, a few leading BNPL figures such as Brad Paterson, CEO of Splitit, and Andrew Rostami, president of Citizens Pay, have backed the healthcare industry to be the next frontier for BNPLs. They also anticipate a deeper push into the service and travel industries over the next few years.

Paterson says the service industry mostly consists of small businesses — such as accounting firms, veterinary clinics or personal trainers — that are paid after a service has already been given, and that consistent cash flow is a big challenge for these enterprises. A survey conducted on the economic impact of COVID-19 on small businesses found a median-sized business had only about two weeks of cash on hand and that three-quarters of the respondents only had enough to last two months or less.

Paterson believes giving consumers options to pay in installments may lead to higher conversion rates and a faster influx of cash in the service industry. To that point, when an online business offered two payment plans — four payments of $225 or 10 payments of $99 — to its customers, the business reported that it gained 27% more customers.

What's more, even though the four-payment plan was $100 cheaper overall, 90% of customers who chose to pay in installments chose the 10-payment option because it offered a lower monthly payment. People were willing to pay more overall, just so they could pay less at the time, demonstrating what Paterson says is a universal truth: consumers are looking for ways to make purchases in an affordable way.

Sunbit is one BNPL that has made its name in the service industry market, with a focus on small or medium-sized merchants that have a localized presence, such as car dealerships like Rock Honda. The dealership is a family-run business in Fontana, CA that sells new and used Honda vehicles. When the dealership integrated Sunbit into its payments, it made around $124,000 in additional revenue in March and April during COVID-19.

As the world opens up again and the travel economy begins to rebound, Citizens Pay's Rostami also expects to see a shift towards the travel industry over the next few years. VRBO, an online vacation rentals service, reported that 82% of surveyed families already had travel plans for 2021 and some BNPLs have already made key moves. Affirm has a catalogue of travel options with Delta Air, Priceline and Expedia and early this year, it announced its partnerships with Vacasa and VRBO to make vacation rentals more affordable for travellers.

As the BNPL industry grows bigger, it faces bigger challenges. While some BNPLs bar customers from paying off their purchases with credit cards, others do not. Both Afterpay and Affirm allow customers to connect their accounts to a credit card. Allowing consumers to pay off a loan with a credit card is no different from paying on the card to begin with, which creates a layering of credit that defeats the purpose of BNPL solutions.

Moreover, BNPLs like Afterpay, Klarna and Affirm all report to credit bureaus. When a late payment is reported to the bureau, it affects the customer's credit score. In February, Tearsheet reported that of the Americans who used BNPL and missed a payment, 72% saw their credit scores drop.

Some BNPLs also charge late payment fees and/or high interest rates when a loan payment is delayed, which can accrue debt quickly, as well. Regulators in the UK are investigating lending practices in the BNPL industry and implementing stricter controls. Lenders will be required to carry out affordability checks on all customers before lending and customers will be able to bring complaints about BNPLs to the Financial Ombudsman Service. It will still be another year or two before the legislation can be implemented.

In the US, it is still unclear how BNPLs should be regulated since these companies do not have bank charters, some do not charge interest and laws vary by state. While Paterson expects to see some sort of regulation within the next or or two, he does not expect the industry to slow down.

"The headline is that we don't believe regulation should prohibit innovation," says Paterson. "But we also believe everybody should be made to play from a level playing field — it's in the consumer's best interest."

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