Buy Now, Pay Later consumer credit behaviour: Impacts on financing decisions

BALRAM DHANANJAY SINGH

Department of Management Studies, Siva Sivani Institute of Management, Hyderabad, India

Abstract - Buy Now, Pay Later (BNPL) services have emerged as a rapidly growing FinTech innovation, reshaping consumer credit behaviour and short-term financing decisions, particularly among young and digitally active populations. While BNPL offers convenience, interest-free instalments, and improved liquidity management, concerns regarding hidden debt accumulation, impulsive spending, and financial vulnerability remain largely unexplored in emerging markets. This study examines the impact of BNPL usage on consumer financing decisions, spending behaviour, and financial attitudes in India. Primary data were collected through a structured questionnaire from 92 respondents, predominantly within the 21–35 age group. The study employs descriptive analysis and Likert scale behavioural assessment to evaluate BNPL adoption, financial literacy, and attitudes toward debt. Findings indicate that BNPL is primarily used as a liquidity-management tool rather than for discretionary luxury spending. However, gaps in financial literacy and the preference for loans over depleting savings highlight the risk of debt stacking and long-term financial stress. The study concludes that while BNPL enhances short-term financial flexibility, regulatory oversight and financial education are essential to mitigate systemic and consumer-level risks.

Keywords: Buy Now Pay Later, Consumer Credit Behaviour, Financing Decisions, Financial Literacy, FinTech

I. INTRODUCTION

Background of the Study
The global financial ecosystem has witnessed a rapid transformation with the emergence of Buy Now, Pay Later (BNPL) services. BNPL allows consumers to split purchases into short-term, interest-free instalments, typically integrated seamlessly at the point of sale. Unlike traditional credit cards or instalment loans, BNPL products offer minimal friction, quick approval, and transparent repayment structures.

In India, BNPL adoption has been driven by the growth of e-commerce, digital payments, and younger consumers' aversion to conventional credit cards. Millennials and Gen Z users increasingly prefer BNPL due to its perceived affordability and reduced psychological burden of immediate payment. Merchants also benefit through higher conversion rates, increased basket sizes, and reduced cart abandonment.

Despite these advantages, BNPL raises serious concerns regarding unreported debt, impulsive spending, and financial vulnerability. Many BNPL loans operate outside traditional credit reporting systems, creating "phantom debt" that remains invisible to lenders and regulators. The COVID-19 pandemic further intensified uncertainty in consumer financial behaviour, making it necessary to examine how BNPL affects financing decisions and financial well-being.

Research Problem
The rapid expansion of BNPL services has introduced information asymmetry in the consumer credit ecosystem. Due to limited reporting and regulatory oversight, consumers may accumulate multiple BNPL obligations without a clear understanding of their total debt exposure. This raises concerns related to debt stacking, financial stress, and distorted financing decisions.

The key research problem addressed in this study is whether BNPL acts as a responsible financial inclusion tool or contributes to increased financial vulnerability among users.

Objectives of the Study

The study aims to:
1. Examine the impact of BNPL usage on consumer spending behaviour.
2. Analyse whether BNPL complements or substitutes traditional credit products.
3. Assess consumer attitudes toward debt, savings, and liquidity management.
4. Identify demographic and psychological factors influencing BNPL adoption.

II.RESEARCH METHODOLOGY

Research Design
The study adopts a quantitative, cross-sectional survey design based on a post-positivist research philosophy. A deductive approach was used to test behavioural finance theories related to credit usage and consumer psychology.

Data Collection
Primary data were collected using a structured, self-administered questionnaire circulated online. The questionnaire included demographic variables, BNPL usage indicators, financial literacy questions, and Likert-scale behavioural statements.

Sample Size and Sampling Technique
- Sample size: 92 respondents
- Sampling method: Convenience and snowball sampling

Tools and Techniques
- Descriptive statistics
- Percentage analysis
- Likert scale behavioural analysis

III.RESULTS AND DISCUSSION

Demographic Profile

Table 1: Gender and Business Type Distribution

Category	Count	Percentage
Male	52	56.5%
Female	40	43.5%
Total	92	100%

Age Range: 21–55 years
The majority of respondents fall within the 21–30 age group, indicating strong BNPL relevance among younger consumers.
BNPL Usage Pattern

Table 2: BNPL Usage

Usage	Frequency	Percentage
Yes	42	46.67%
No	48	53.33%
Total	90	100%

The results show significant penetration of BNPL services, with nearly half the respondents actively using BNPL.

Behavioural Analysis (Likert Scale)
The Likert scale results reveal:
- Respondents are cautious about borrowing for non-essential spending.
- A significant proportion prefer loans over depleting savings, indicating BNPL's role as a liquidity-smoothing mechanism.
- High neutrality levels suggest ambiguity and lack of deep understanding of long-term debt consequences.

This supports behavioural finance theories such as Mental Accounting and Pain of Paying, where deferred payments reduce the perceived burden of spending.

Discussion of Findings
- BNPL adoption is highest among young, digitally native consumers.
- BNPL is viewed more as a financial management tool than an impulsive spending facilitator.
- Gaps in financial literacy increase the risk of debt accumulation and financial stress.
- The preference for preserving savings through BNPL indicates potential long-term liquidity risks.

IV.CONCLUSION

The study concludes that Buy Now, Pay Later services significantly influence consumer financing decisions, particularly among younger populations. While BNPL enhances short-term liquidity and financial flexibility, it also introduces risks associated with unreported debt and financial illiteracy. The findings suggest that BNPL does not inherently promote reckless spending but can exacerbate financial vulnerability when combined with low financial awareness. Policymakers, BNPL providers, and financial institutions must collaborate to ensure transparent credit reporting and targeted financial education to safeguard consumer financial health.

V.APPENDIX

- Survey questionnaire
- Detailed Likert scale response distributions

- Demographic frequency tables

VI.ACKNOWLEDGMENT

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