



Original Article

THE IMPACT OF BUY NOW, PAY LATER SERVICES ON CONSUMER DEBT LEVELS

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Abstract:

The rapid proliferation of "Buy Now, Pay Later" (BNPL) services has revolutionized the digital payment landscape, particularly among younger demographics. This study investigates the impact of interest-free instalment schemes on consumer spending habits and impulsive buying behaviour. As per the research focuses on the fastest-growing consumer credit segment usually associated with e-commerce, but increasingly offered for brick-and-mortar shopping too. The purpose of the study was to identify how, and the extent to which, specific aspects of consumer behaviour – particularly in terms of attitudes towards money management, and socio-demographics – influence the use of BNPL. The reasons are socio-demographic, economic, psychological and technological. It is the Shift from Traditional Credit Cards to BNPL among Gen Z and Millennials.

Keywords: Buy Now, Pay Later services, Consumer Debt Levels

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Introduction:

In the last decade, the global financial landscape has undergone a seismic shift driven by the rapid evolution of financial technology (Fintech). Among the most significant disruptions is the emergence of "Buy Now, Pay Later" (BNPL)—a point-of-sale instalment loan that allows consumers

to purchase goods immediately and split the cost into interest-free payments. While traditional credit systems like credit cards have dominated the market for decades, BNPL providers such as Klarna, Affirm, and After pay have captured a significant share of the e-commerce market, particularly among Gen Z and Millennial consumers.



The appeal of BNPL lies in its seamless integration into the online checkout process and its promise of "interest-free" credit without the stringent requirements of traditional bank lending. However, this ease of access has sparked a growing debate among economists and consumer advocates. On one hand, BNPL is praised as a tool for financial inclusion and a modern alternative to high-interest credit card debt. On the other hand, critics argue that the "frictionless" nature of these transactions encourages overspending and targets financially vulnerable individuals who may not fully understand the long-term implications of their debt. Despite its explosive growth, there is a lack of comprehensive research regarding [insert your specific problem here, e.g., the long-term impact on credit scores / the correlation with impulse buying / the effectiveness of current regulations]. This research gap is concerning as BNPL debt often remains "invisible" to traditional credit bureaus, potentially masking a growing household debt crisis.

Purpose:

This Paper seeks to importance of various aspects of Buy Now Pay Later

- 1) Affordability
- 2) Convenience and Speed
- 3) Alternative Credit Option
- 4) Budget Management

Benefits Of Buy Now Pay Later:

- **Manageable payments:** BNPL splits the total cost of a purchase into smaller, fixed instalments, making high-ticket items more affordable and easier to budget for.
- **Often interest-free:** Most BNPL services offer 0% interest if payments are made on time, which can be more cost-effective than using a high-interest credit card.

- **Quick and easy approval:** The application process is usually fast and integrated at checkout, with minimal documentation and often only a soft credit check that does not impact your credit score upon application.
- **Accessibility:** BNPL can be a viable option for individuals who may not have access to traditional credit cards or those with a limited credit history.
- **No long-term commitment:** Each BNPL loan is a one-off transaction. Once you pay it off, the relationship for that specific purchase is over, avoiding the ongoing temptation of a revolving credit line.
- **Immediate access to goods:** You get the product or service right away, without having to wait until you've saved the full amount.
- **Manageable payments:** BNPL splits the total cost of a purchase into smaller, fixed instalments, making high-ticket items more affordable and easier to budget for.
- **Often interest-free:** Most BNPL services offer 0% interest if payments are made on time, which can be more cost-effective than using a high-interest credit card.
- **Quick and easy approval:** The application process is usually fast and integrated at checkout, with minimal documentation and often only a soft credit check that does not impact your credit score upon application.
- **Accessibility:** BNPL can be a viable option for individuals who may not have access to traditional credit cards or those with a limited credit history.

Disadvantages of Buy Now Pay Later:

1. The Psychological "Debt Trap":

Impulse Buying: The "1-tap" checkout removes the "pain of paying." Research shows users



often spend 20-30% more than they planned because the cost is split into smaller, less "scary" amounts.

Mental Accounting Bias: Consumers often treat BNPL instalments as "monthly bills" (like Netflix) rather than actual debt, leading them to stack multiple loans across different apps (e.g., Simple for food, Amazon for clothes).

2. Hidden Costs and High Penalties:

Late Fees: While advertised as "interest-free," a single missed payment can trigger late fees that are often a high percentage of the small loan (e.g., a ₹200 penalty on a ₹500 purchase).

Compounding Interest: If a user defaults, some providers shift the loan to a high-interest model with APRs ranging from 30% to 40%, far exceeding traditional bank rates.

3. Impact on Credit Scores (CIBIL):

Invisible Debt: Since many BNPL loans are small, they weren't traditionally reported. However, under 2025 RBI guidelines, even a ₹500 default is reported to CIBIL, which can drop a student's, credit score by 50–100 points, making future home or car loans much harder to get.

Hard Inquiries: Some apps perform a "hard" credit check upon application, which temporarily lowers your score.

4. Lack of Consumer Protection:

Difficult Returns: Getting a refund for a BNPL purchase is famously difficult. The user often has to keep paying the instalments even if the product is returned, until the merchant and the app synchronize.

Aggressive Collection: Since these are unsecured loans, some third-party lenders use aggressive digital collection tactics that can cause mental stress.

Type of Buy Now Pay Later:

1. By Business Model (How they operate):

- **Direct-to-Consumer (Integrated Apps):** The most common form. BNPL providers (like

Klarna or After pay) partner directly with retailers. The option appears at the checkout page.

- **Card-Network Led:** Major networks like Visa or Mastercard allow banks to offer instalment options on existing credit cards (e.g., "Amex Plan It").
- **Bank-Led BNPL:** Banks offer standalone digital credit lines that act like BNPL but are backed by traditional banking regulations (e.g., Zinia by Santander).
- **White-Label Solutions:** Technology providers allow a specific brand (like Apple or Walmart) to offer their own branded "Pay Later" service, while a third party handles the back-end financing.

2. By Repayment Structure (How the user pays):

- **Pay in 4 (Bi-weekly):** The classic model where the total is split into four equal interest-free instalments, with the first due at checkout and the rest every two weeks.
- **Pay in 30 Days:** The user buys the item and pays the full balance exactly 30 days later with 0% interest (common for "try-before-you-buy" apparel).
- **Long-term Financing (Off-card):** For high-ticket items (furniture, electronics), payments may be spread over 6–36 months. These often carry an interest rate (APR) but are still marketed under the BNPL umbrella.

3. By Consumer Target & Geography:

- **B2C (Business to Consumer):** Standard retail shopping for individuals.
- **B2B (Business to Business):** Emerging models that help small businesses buy inventory or equipment in instalments (e.g., Hokodo).
- **Platform-Specific:** Services built into "super apps" or ecosystems (e.g., Amazon Pay



Later, Flipkart Pay Later, or Paytm Postpaid

in India).

Type	Focus / Integration	Key Examples
Pure-Play	Direct retailer integration; usually "Pay in 4" interest-free models.	Klarna, after pay, Affirm, Sezzle
Ecosystem	Built into a larger marketplace or "Super App" for seamless checkout.	Amazon Pay Later, Shop Pay, Flipkart Pay Later
Network-led	Linked to existing Credit/Debit card infrastructure and bank accounts.	Visa Installments, Amex Plan It, Chase Plan
UPI-based	Integrated into digital wallets and mobile payment interfaces.	Simpl, LazyPay, FlexPay, Paytm Postpaid
B2B BNPL	Trade credit allowing businesses to buy inventory or equipment.	Hokodo, Billie, Mondu, Tranch

The List of Top 10 Companies in India Who Provide Buy Now Pay Later:

Rank	Company	Model Type	Key Strength
1	Amazon Pay Later	Ecosystem	Deep integration with Amazon; official partner with axio and IDFC First Bank.
2	Paytm Postpaid	UPI-Wallet	Accepted at almost every merchant QR code in India; up to ₹60,000 limit.
3	Simpl	Pure-Play	Famous for "1-tap" checkout on apps like Zepto, Zomato, and BigBasket.
4	LazyPay (PayU)	Pure-Play	High acceptance across 45,000+ merchants; strong in Tier-2 and Tier-3 cities.
5	Flipkart Pay Later	Ecosystem	Owned by Walmart; focuses on high-ticket electronics and fashion EMIs.
6	MobiKwik ZIP	UPI-Wallet	Offers a credit line up to ₹60,000 for utility bills and shopping.
7	Slice	Hybrid	Pivot from "credit cards for students" to a full banking/UPI credit app.
8	axio (Capital Float)	Pure-Play	Provides the backend credit engine for Amazon; strong focus on "checkout finance."
9	Postpe (BharatPe)	UPI-based	Allows users to "Scan and Pay" anywhere and settle the bill the next month.
10	HDFC FlexiPay / ICICI PayLater	Bank-led	Traditional banks entering the space to compete with Fintechs for small-ticket loans.

Design /Methodology:

Inclusion Criteria:

- Peer-reviewed journal articles (2020–2025).
- Official reports from financial regulators (RBI, CFPB, etc.).
- Industry whitepapers (Deloitte, Klarna annual reports).

Exclusion Criteria: Personal blogs or non-verified social media.

Approach / Objective:

- To develop a theoretical model that explains the relationship between "Ease of Credit" and "Consumer Financial Wellbeing" in the digital age.



- To integrate findings from behavioural finance and digital marketing to explain the rapid adoption of BNPL among first-time borrowers.
- To Build a Conceptual Framework: To integrate the filtered findings into a single visual model

Originality / Values:

- To estimate the importance of various factors regarding Buy Now and Pay Later

Result / Conclusion:

The results suggest that BNPL is not merely a payment tool but a **psychological "nudge"** that alters money management attitudes. While the "Convenience and Speed" (Objective 2) are high, they often come at the cost of "Consumer Financial Wellbeing." The findings support the theory that the "frictionless" nature of Fintech can lead to impulsive behaviour, potentially creating a new generation of debt-burdened youth in India. This study concludes that while Buy Now, Pay Later (BNPL) services have successfully promoted **financial inclusion** by providing credit to the "unbanked" and young demographics in India, they have simultaneously introduced new risks. The transition from traditional credit cards to BNPL is driven by technological ease and perceived affordability rather than actual financial surplus.

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Shows BNPL borrowers are more likely to hold higher balances on other unsecured credit and often use multiple BNPL loans.

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