

THE ROLE OF FINTECH IN THE GROWTH OF BUY NOW, PAY LATER (BNPL) SERVICES: OPPORTUNITIES AND CHALLENGES

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ABSTRACT

The rise of *Buy Now, Pay Later* (BNPL) services has transformed consumer finance by offering short-term, interest-free installment payment options. This study explores the role of fintech in the growth of BNPL services, highlighting the opportunities and challenges associated with this financial model. The BNPL market has witnessed rapid expansion globally, with fintech companies driving innovation and increasing accessibility to credit. While BNPL enhances affordability for consumers and boosts sales for merchants, it also raises concerns about overspending, regulatory scrutiny, and financial sustainability. This paper examines BNPL adoption trends, market growth in India, key industry players, and the implications for financial inclusion. Additionally, it evaluates potential risks, such as debt accumulation and regulatory challenges, while proposing strategies to balance consumer protection with innovation in financial technology.

Keywords: [Buy Now Pay Later (BNPL), FinTech, Consumer Finance, Short-Term Credit, Financial Inclusion, Regulatory Challenges, Digital Lending, Market Growth]

I. INTRODUCTION

Buy Now, Pay Later (BNPL) is a short-term financing option that enables consumers to make purchases and pay for them in installments, often with little to no interest. The payment plans typically split the total amount into equal installments, payable over a few weeks or months. Companies like Afterpay, Klarna, Affirm, and PayPal's Pay in 4 are leading this space, partnering with retailers to offer BNPL options at checkout, both online and in-store.

BNPL enhances consumer affordability by allowing the cost of a purchase to be spread over time, making higher-priced items more accessible without the need for a credit card. Retailers benefit from increased sales and higher average order values, improving customer satisfaction and loyalty.

The rise of BNPL is significantly impacting the fintech industry, driving innovation and competition. Traditional financial institutions and credit card companies are launching their own BNPL services or partnering with existing providers. The BNPL sector has attracted significant investment, with fintech startups raising substantial funds to expand their services and enter new markets.

The global BNPL market is expected to grow by 13.7% annually, reaching approximately \$560.1 billion by 2025. This expansion follows a robust compound annual growth rate (CAGR) of 21.7% from 2021 to 2024. For example, Klarna has partnered with Walmart to offer installment loans with payment terms ranging from three to thirty-six months for American consumers.

BNPL MARKET IN INDIA

In India, the BNPL market is experiencing accelerated growth. The transaction value of BNPL services is expected to grow at a CAGR of 32.5% between 2022 and 2026, reaching approximately \$15 billion by 2026. This surge is driven by increasing demand for short-term credit and the growing preference for online shopping. The online segment dominates BNPL services, with various organizations entering the market to support the aspirations of small and medium-sized businesses.

II. LITERATURE REVIEW

BNPL is an interest-free financial instrument that evolved from technological advancements, allowing consumers to defer payments and use installment mechanisms. BNPL transactions are not reported to credit bureaus, making them attractive to consumers who wish to avoid credit checks. However, missing payments can attract penalties, impacting consumer credit markets globally.

The Buy Now, Pay Later (BNPL) sector has garnered significant attention in academic and policy circles, leading to numerous studies that explore its impact on consumer behavior, financial stability, and regulatory landscapes. Early research primarily focused on the rapid adoption of BNPL services and their potential benefits and risks. For instance, Tijssen and Garner (2021) observed a notable shift among UK online shoppers towards BNPL options, indicating a change in purchasing habits driven by the convenience of deferred payments. Similarly, Dash et al. (2021) categorized BNPL providers as proxy lenders within the Indian financial ecosystem, highlighting their role in expanding credit access. The Organisation for Economic Co-operation and Development (OECD) (2019) suggested that, with appropriate regulation, BNPL could effectively meet consumer demand for short-term credit, while cautioning against the potential for financial distress among vulnerable populations.

Building upon these foundational studies, more recent research has delved deeper into the nuances of BNPL usage. Guttman-Kenney, Firth, and Gathergood (2022) advocated for the use of real-time transaction data by regulators to monitor BNPL markets and assess associated risks, emphasizing the need for timely oversight in this rapidly evolving sector. Additionally, studies have examined the credit profiles of BNPL users, revealing that they tend to be younger, less-educated, with higher debt burdens and lower credit scores, raising concerns about their financial vulnerability.

In 2025, the Consumer Financial Protection Bureau (CFPB) released a comprehensive report analyzing BNPL applications and originations from six major BNPL firms. This study provided valuable insights into the credit behaviors of BNPL users, highlighting a significant increase in BNPL applications and approval rates from 2019 to 2022. Furthermore, the J.D. Power 2025 U.S. Buy Now Pay Later Satisfaction Study reported continued growth in BNPL

usage, particularly among Millennials and Generation Z, underscoring the demographic shifts influencing the BNPL market.

Recent developments in the BNPL landscape include partnerships between BNPL providers and various industries. For example, DoorDash's collaboration with Klarna to offer BNPL options for food deliveries has sparked discussions about the appropriateness of using BNPL for small, everyday purchases, given the potential for increased debt accumulation. Additionally, studies have examined the impact of including BNPL loans in consumer credit scores, with FICO and Affirm conducting a 12-month analysis to understand how BNPL obligations affect creditworthiness.

Overall, the evolving body of research reflects a growing recognition of both the opportunities and challenges presented by BNPL services. While they offer consumers flexible payment options and can stimulate economic activity, concerns persist regarding overspending, debt accumulation, and the need for robust regulatory frameworks to protect consumers and ensure financial stability.

OBJECTIVES

1. To understand users' perceptions of BNPL services.
2. To assess the regulatory challenges and market risks associated with BNPL.

III. METHODOLOGY

The study relies on secondary data sources to examine market trends, financial performance, and regulatory developments. Data sources include

- **Industry Reports:** BNPL market analysis from sources such as McKinsey, PwC, and RBI reports.
- **Company Financials:** Annual reports and financial disclosures of major BNPL providers in India and globally.
- **Regulatory Guidelines:** Policies from RBI, SEBI, and global regulatory agencies concerning digital lending and consumer protection.
- **Academic Research:** Review of existing literature on BNPL, fintech innovations, and financial inclusion (2020–2025).

IV. DATA ANALYSIS AND INTERPRETATION:

I. To understand user's perceptions of BNPL services.

This study explores users' perceptions of BNPL services, focusing on their convenience, affordability, and impact on spending behavior while assessing potential risks like debt accumulation and financial mismanagement.

Top BNPL Players in India

1. Simpl (2015): Offers a mobile-first platform with instant approval, consolidating expenses payable every 15 days.

2. ZestMoney (2016): Uses mobile technology, digital banking, and AI to provide installment-based BNPL services.
3. LazyPay: Combines Simpl and ZestMoney features, allowing users to clear dues every 15 days or opt for EMIs.
4. Flexmoney: Operates InstaCred, enabling banks and lenders to offer financing options.
5. ePayLater (2015): Provides interest-free credit limits for short-term purchases.
6. Paytm Postpaid (2019): Allows users to shop online with postpaid credit, generating monthly bills.
7. OlaMoney Postpaid (2018): Provides a BNPL option for ride payments and over 300 partner applications.
8. Amazon Pay Later (2020): Offers interest-free credit and installment payment options.
9. Flipkart Pay Later: Features repayment tenure of up to 35 days and partial repayment options.
10. Capital Float (2013): Powers Amazon Pay Later and offers digital credit services.

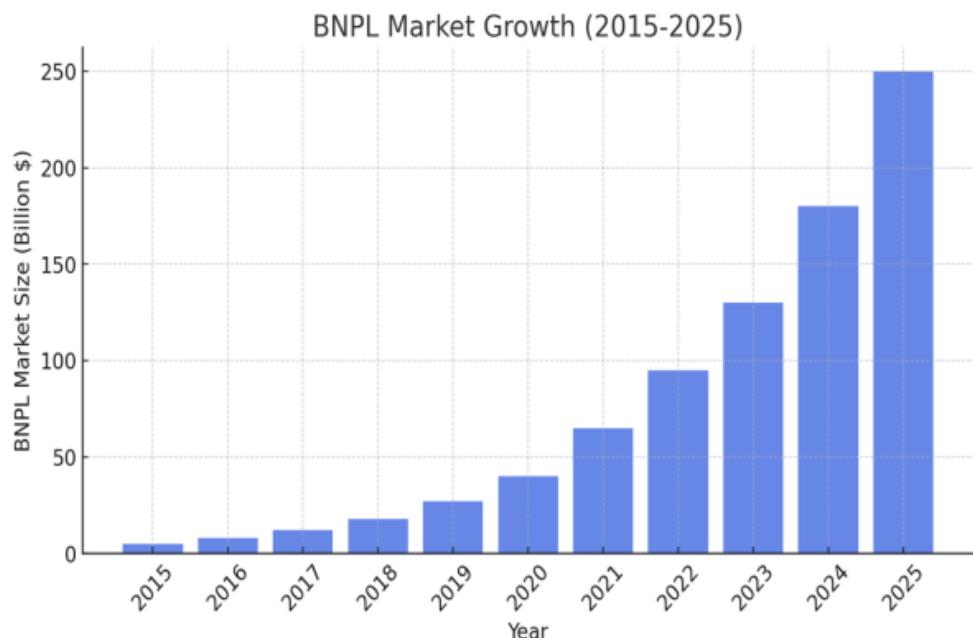


Figure 1.1 BNPL Market Growths (Year-wise) from 2015 to 2025

The bar graph showing **BNPL Market Growth (Year-wise) from 2015 to 2025** based on collected review based market size data.

II. To assess the regulatory challenges and market risks associated with BNPL.

This study evaluates the regulatory challenges and market risks associated with BNPL services, including increasing government oversight, evolving financial regulations, consumer protection concerns, and financial sustainability. It examines issues such as high default rates, fraud risks, competition from traditional financial institutions, and the complexities of returns and refunds. The analysis highlights the need for balanced regulatory frameworks that promote responsible lending while fostering innovation in the fintech sector.

Opportunities

For Consumers:

- Financial Flexibility: Enables purchases through installment payments.
- Simplified Checkout: Provides a seamless online and in-store payment experience.
- Interest-Free Financing: Reduces financial burdens compared to traditional loans.
- Access to Purchases: Expands purchasing power for essential and discretionary goods.

For Merchants:

- Increased Sales: Drives higher conversion rates and order values.
- Enhanced Customer Experience: Improves satisfaction and loyalty.
- Reduced Acquisition Costs: Helps attract and retain customers.
- Market Expansion: Reaches consumers with limited credit access.
- Data Analytics: Provides insights into consumer behavior and trends.

For the Financial Industry:

- New Revenue Streams: Generates earnings through fees and interest.
- Market Growth: Expands financial institutions' reach and market share.
- Innovation: Encourages advancements in payment technology and fintech solutions.

Challenges

1. Overspending and Debt: The ease of BNPL can lead to excessive spending and financial distress.
2. Regulatory Scrutiny: Governments are increasing oversight to ensure responsible lending practices.
3. Consumer Protection: Clear guidelines are needed to safeguard users from hidden fees and risks.
4. Returns and Refunds: BNPL complicates return policies and refund processes for merchants and consumers.

Table 1.1: Challenges Faced by BNPL Providers

Challenge	Description
Regulatory Risks	Increasing government oversight and evolving financial regulations affecting BNPL operations.
Fraud Concerns	Rising incidents of identity theft, unauthorized transactions, and fraud risks.
Financial Sustainability	High default rates and dependency on merchant fees affecting long-term viability.
Consumer Protection	Lack of clear guidelines on interest rates, hidden fees, and debt accumulation.
Competition	Growing competition from traditional banks and fintech startups offering BNPL alternatives.
Returns & Refunds	Complex return processes impacting merchants and BNPL providers.

Interpretation:

BNPL services face several challenges, including increasing regulatory scrutiny as governments introduce stricter financial regulations. Fraud risks, such as identity theft and unauthorized transactions, are on the rise, posing security concerns. Financial sustainability is a key issue due to high default rates and reliance on merchant fees. Consumer protection remains a challenge, with a lack of clear guidelines on interest rates, hidden fees, and debt accumulation. Additionally, BNPL providers face intense competition from traditional banks and fintech startups offering similar services. The complexities of returns and refunds further complicate the process for both merchants and consumers, impacting overall service efficiency.

Table 1.2: BNPL's Impact on Consumer Spending (Before vs. After Adoption)

Factor	Before BNPL Adoption	After BNPL Adoption
Average Purchase Value	Lower, due to upfront payment constraints	Higher, as payments are split into installments
Frequency of Purchases	Moderate, with budget limitations	Increased, due to flexible payment options
Luxury/High-Value Purchases	Limited, as full payment is required upfront	More frequent, as consumers can afford higher-value items
Impulse Buying	Less common, driven by available cash flow	More common, as small installments seem manageable
Debt Accumulation	Lower, limited to credit card or loans	Higher, if BNPL spending is not managed responsibly
Financial Planning	More cautious spending	Potential risk of overspending due to easy access

INTERPRETATION:

BNPL adoption significantly impacts consumer spending patterns by increasing average purchase values and purchase frequency due to the flexibility of installment payments. Consumers are more likely to buy luxury or high-value items as they no longer need to pay upfront. Impulse buying also rises, as small installments make purchases seem more manageable. However, this shift can lead to higher debt accumulation if spending is not controlled. While financial planning is more cautious before BNPL, easy access to credit may encourage overspending, highlighting the need for responsible usage.

FINDINGS AND SUGGESTIONS

- The study finds that Buy Now, Pay Later (BNPL) services have significantly transformed consumer finance by providing accessible, short-term credit options. The rapid growth of BNPL is driven by fintech innovations, making financial transactions more convenient for consumers while boosting sales for merchants.
- BNPL enhances affordability and financial flexibility, allowing users to make purchases through easy installment payments. However, the increasing popularity of BNPL has also raised concerns about overspending, debt accumulation, and regulatory risks. The lack of clear consumer protection policies and the potential for financial distress among vulnerable users highlight the need for stricter oversight and responsible lending practices.
- Additionally, competition among fintech companies and traditional financial institutions is intensifying, leading to continuous innovation in digital lending solutions. To ensure sustainable growth, regulatory bodies must establish clear guidelines that balance consumer protection with financial innovation. Strengthening transparency, improving financial literacy, and implementing responsible credit assessment mechanisms will be crucial in maintaining the long-term viability of BNPL services.

CONCLUSION

The BNPL sector is transforming consumer finance by offering easy and interest-free credit options, making high-value purchases more accessible and increasing consumer spending. Its rapid adoption benefits consumers, merchants, and financial institutions by driving sales and enhancing purchasing power. However, the model presents significant challenges, including increasing regulatory scrutiny, fraud risks, financial sustainability concerns, and consumer protection issues related to hidden fees and debt accumulation. The growing competition from traditional banks and fintech firms further pressures BNPL providers to refine their offerings. Moving forward, the sector must strike a balance between financial inclusion and responsible lending by implementing clear regulations, improving transparency, and adopting risk management strategies. As fintech innovations continue to shape the industry, BNPL services are expected to evolve into more sustainable and consumer-friendly financial solutions.

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