

Available online @ www.iaraindia.com
 SELP Journal of Social Science - A Blind Review & Refereed Quarterly Journal
 ISSN: 0975-9999 (P) 2349-1655 (O)
 Impact Factor: 3.655 (CIF), 2.78(IRJIF), 2.5(JIF), 2.77(NAAS)
 Volume XV, Issue 55, January-June 2024
 Formally UGC Approved Journal (46622), © Author

A STUDY ON PREFERENCE AND IMPACT OF BUY NOW PAY LATER SERVICES (BNPL) ON FINANCIAL WELL BEING OF THE CUSTOMERS

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Abstract

There are a plethora of digital opportunities available to the typical person as a result of the global digital revolution. Payment and settlement systems have undergone the most significant shift of any business. A shift towards a credit-oriented economy has coincided with the trend towards a cashless economy. Retail customer behaviour and the financial markets have changed as a result of the growing acceptance of FinTech-driven solutions. A multitude of fin-tech startups, banks, e-commerce, online travel aggregators, and other businesses offering Point of Sale (PoS) credit have sprung up as a result of this economic transformation. FinTech companies' buy now, pay later (BNPL) offerings have become more popular with customers and merchants in recent years, and they may eventually challenge credit cards as a form of payment. These services have become more and more popular as a result of the pandemic. More and more people are choosing to use credit choices and pay them back later on a daily basis. The purpose of this study is to have a thorough knowledge of why consumers prefer to use Buy Now Pay Later services over alternative credit options.

Keywords: Buy Now Pay Later, BNPL, FinTech, PoS Credit, FinTech Credit.

Introduction

With an adoption rate of 87% for financial technology (FinTech) compared to the global average of 64%, India is quickly becoming the financial technology (FinTech) hub of Asia. The Reserve Bank is actively working to create an ecosystem that will support emerging technologies and elevate the aspirations of the financial community in terms of technology. - Reserve Bank of India Governor Shri Shaktikanta Das

Globally, credit markets are undergoing significant change. New intermediaries have lately developed, but in most nations banks, credit unions, and other traditional lenders continue to be the main source of financing, with capital markets playing a significant role in certain circumstances. Peer-to-peer and marketplace

lending, in particular, are examples of digital lending strategies that have expanded in numerous economies in the last decade. "FinTech credit" refers to certain credit kinds that are provided via online platforms as opposed to conventional banks or lending organisations. Furthermore, a number of sizable businesses known as "big techs," whose main line of business is technology, have entered the credit market in recent years and are offering "big tech credit" either directly or in collaboration with financial institutions.

The way that financial services are provided and designed has changed dramatically in the previous ten years due to the integration of technological developments. As new use cases arise, the precise range of activities falling under the umbrella of

FinTech will continue to change, but the financial industry's growing adoption of technology will not. In an attempt to stay up with the constantly shifting environment, Reserve Bank has been actively promoting FinTech innovation, for attaining the larger public good.

India is one of the fastest-growing economies in the world but there exists a significant gap in accessing formal credit, especially when compared to other developed nations. Banks and financial institutions (FIs) are working on filling this gap by introducing new payments products and instruments that would make it easier to access formal credit. Traditionally, formal credit was restricted to financial products such as home, auto and personal loans. However, banks and FIs have recently shifted their focus towards instruments like credit cards, buy now, pay later (BNPL) and credit EMIs. New FinTech players have disrupted the market by introducing new and innovative products and offerings to consumers.

BNPL has become a prominent mode of payment in the last few years. As per a latest report by a FinTech firm, BNPL has already captured 3% of the market share in the online e-commerce payments segment and the number could go up to 9% by 2024. BNPL is becoming a popular mode of short-term financing amongst millennials.

BNPL in India

In recent years, there have been some notable changes in India's online payment sector. New payment methods that streamline the customer payment experience have been introduced by several FinTech companies. Among the most common choices are debit and credit cards, universal payments interfaces (UPI), and mobile wallets. But Buy Now Pay Later (BNPL), a more recent digital payment method, is becoming more and more well-liked.

A widespread practice known as "Buy Now, Pay Later," or "BNPL," enables customers in all financial ranges to make purchases. Though the idea behind BNPL has been around for a while, it hasn't really evolved into a trendy, marketable product until recently. BNPL is a popular substitute for credit cards and provides a simpler method of to pay for items. BNPL accounted for about 2% of all e-commerce sales worldwide in 2021 alone! Nowadays, more than 50 businesses

worldwide offer BNPL services in conventional fiat systems. Numerous regulatory actions taken by the Reserve Bank of India have a direct bearing on how BNPL companies operate in India. Because of the increasing demand from customers, the industry is expected to grow strongly in Q42022, even with the regulatory bumps.

In India, the buy now pay later (BNPL) loan tech sector is growing, with a number of businesses and FinTech platforms currently experimenting with different approaches. E-commerce giants Flipkart and Amazon India provide their own BNPL products in addition to pureplay BNPL startups like Simpl, Lazypay, Zestmoney, and ePayLater. FinTech and payments companies like PhonePe (via Flipkart) and Paytm have also entered this industry.

Review of Literature

Paramasivan. C (2019), Digital financial inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers. DFI involves many intermediaries intuitions, banks, NGO's and public.

Sarah Papich (2022) noted that the first causal evidence of the effects of access to buy now, pay later loans on use and repayment of other forms of credit. Using a two-way fixed effects strategy that exploits geographic and temporal variation in availability of BNPL at a large retailer, I find that access to BNPL increases borrowing. Total open balances increase by 4.3% and number of open credit cards increases by 2.1%. BNPL access also improves consumers' abilities to repay their debts, with the total amount past due decreasing by 2.4% and number of current delinquencies decreasing by 0.2%. These results suggest that on average, consumers are using BNPL responsibly rather than accumulating debts they are unable to repay.

Sudhanshu Sekhar Pani (2022) examines the strengths, opportunities, and challenges presented by the Buy Now Pay Later (BNPL) product/service from the perspective of the consumer, service providers, investors, and regulators. They present a microeconomic model of BNPL consumers and firms. The model and simulation to the

model highlight the strength of the BNPL product. In its simplest form, the deferred payment of consumer purchase, the product is robust and attractive to all stakeholders.

Aaron Gilbert & Ayesha Scott (2022) analysed that the very limited literature on the impact BNPL has on financial wellbeing by investigating the relationship between BNPL use and over-indebtedness in a sample of 705 New Zealand young adults, aged 18-34. We find strong evidence that indicators of over-indebtedness are more prevalent in those who use BNPL, and especially those who use it poorly, i.e., incurring fees frequently and needing to borrow to repay their BNPL balance. The results suggest there are good reasons for governments to extend existing consumer finance regulations to BNPL.

Mari Anette Hjorthol, Ida Helene Grøtan (2021) investigates how Buy Now Pay Later (BNPL) credit payment options influence consumers' willingness to incur debt. Furthermore, this study wishes to make a societal contribution by investigating whether certain consumer characteristics representing vulnerable consumer groups, such as young age, lower levels of self-control and lower levels of financial literacy, make consumers more inclined to incur debt with BNPL payment options.

Rhys Ashby (2019) investigate that the underlying psychological mechanisms that influence consumer spending behaviour when using buy-now-pay-later to address this research gap. The results across three experiments indicate that buy-now-pay-later influences consumer spending behaviour in a novel way. The numerosity heuristic, the tendency to infer greater quantity from larger numbers, influences consumers to perceive purchases as less expensive with smaller instalment prices compared to total prices. Consumers perceived that purchases were less expensive and felt less pain of payment when using buy-now-pay-later, leading to increased spending behaviour such as increased purchase intent, the purchase of more expensive items, and an increased amount spent.

Scope of the Study

This study examines the financial effects and customer preferences of BNPL services in India. This paper has a lot of potential to study different aspects of BNPL services, such as the demographic profile of its users, their preferences for different types of

credit, why they prefer certain BNPL services over others, and finally the financial impact of these services on their usage patterns and overall financial stability and health. Policy makers, regulatory authorities, BNPL service providers, and their clients can all benefit from this research paper by better understanding these aspects of these services and making more informed decisions when it comes to enacting legislation, regulating, growing their businesses (for BNPL service providers in India, for example), or ensuring the safety and soundness of their finances.

Statement of Problem

An increasing number of consumers and retailers are choosing to use BNPL services for sales and purchases as the credit industry in India grows. The increase in BNPL services has had an effect on customers' financial health as well as other credit services. Knowing how consumers are shifting from other traditional forms of credit to BNPL and which BNPL service providers they prefer will help identify the aspects that consumers consider important when selecting these services. Moreover, clients may make better decisions about the use of BNPL services if they are aware of how these services affect their financial wellness and health.

Objectives of the Study

1. To study about Buy Now Pay Later (BNPL) service.
2. To find out which BNPL services clients prefer to use over other financing options.
3. To comprehend why clients would rather use a BNPL service than another.
4. To evaluate how BNPL services affect clients' financial security.

Research Methodology

Both descriptive and analytical methodologies were used in this investigation. Utilising both primary and secondary data, the study's goal was met. To obtain primary data, the questionnaire has been distributed to Chennai consumers using social media. We have collected secondary data from newspapers, internet marketing publications, and contemporary literature. 115 respondents provided the relevant data, which were gathered using practical sampling. One way ANOVA and simple percentage analysis are used to analyse the collected data.

Limitations of the Study

During and post COVID-19, the BNPL industry started to take off. Given this,

the bulk of the target community is not well-informed about these services. This survey

only has 115 respondents and is limited to Chennai.

Reasons to Prefer BNPL Services Over Other Forms of Credit by the Respondents

Reasons to Prefer BNPL Service over Other Forms of Credit	Respondents	Percentage
More Comprehensible and Transparent	14	12.17%
Zero or Lower Interest Rate	16	13.91%
More Convenient to Use	28	24.35%
None requirement of collateral	12	10.43%
Greater Flexibility in payments	10	8.70%
Shorter tenure	7	6.09%
Lower penalties	8	6.96%
Easy approval process	12	10.43%
I don't prefer Bnpl services	8	6.96%
Total	115	100.00%

The above table represents that out of 115 respondents 24.35 % are prefer to More Convenient to Use, 13.91 % are zero/ lower interest rate, 12.17 % are more comprehensible and transparent, 10.43% are none requirement of collateral and easy approval process, 8.70 % are greater flexibility in payments, 6.96 % are lower penalties and don't prefer to use BNPL services and 6.09 % are prefer for shorter tenure.

BNPL Services Used by the Respondents

BNPL Services	Respondents	Percentage
Cred	8	6.96%
Flex money	2	1.74%
Slice	21	18.26%
Amazon pay later	24	20.87%
Flipkart pay later	22	19.13%
Paytm post paid	8	6.96%
HDFC flexi pay	10	8.70%
ICICI pay later	4	3.48%
Ola money post paid	14	12.17%
Other	2	1.74%
Total	115	100.00%

The above table shows that out of 115 respondents 20.87 % of the respondents are used Amazon pay later , 19.13% of the respondents are used flipkart pay later, 18.25 % of the respondents are used Slice, 12.17 % of the respondents are used Ola money post paid and less than 10% of the respondents are used the remaining BNPL Services.

How Often Use the BNPL Services by the Respondents

Usage of BNPL Services	Respondents	Percentage
Always	6	5.22%
Frequently	20	17.39%
Often	47	40.87%
Sometimes	10	8.70%
Rarely	32	27.83%
	115	100.00%

The above table indicates that out of 115 respondents 40.87 % of the respondents are used often to BNPL services, 27.83 % of the respondents are used rarely, 17.39 % of the respondents are used frequently, 8.70 % of the respondents are used sometimes and only 5.22% of the respondents are used always.

H₀ : There is no significant difference between the Area of living of respondents with respect to Impact of BNPL Services to Consumers

One Way ANOVA on Area of Living and Impact of BNPL Services to Consumers

Factors	Area Of Living	Mean	SD	F value	P value
Positive Impact	Rural	4.02	0.78	0.233	0.792
	Urban	3.96	0.777		
	Semi-Urban	3.94	0.839		
Negative Impact	Rural	3.86	0.753	0.097	0.907
	Urban	3.81	0.802		
	Semi-Urban	3.8	0.885		
No Impact	Rural	2.41	1.105	0.703	0.496
	Urban	2.53	1.144		
	Semi-Urban	2.54	1.099		

From the above Table 4, it is understood that none of the construct(s) are having significant difference based on Area of Living. All the constructs namely Positive impact, Negative impact and No impact have no significant difference in Area of Living of consumers. Therefore, from the result it is concluded that the null hypothesis is accepted.

Major Findings

- ❖ The people between age 18 – 24 are the most no of BNPL users with maximum of 69.6% of the respondents.
- ❖ With respect to Gender, Male respondents are the most no of users of BNPL services of 78.3%.
- ❖ Among the occupation and designation of people, College student are the maximum no of users of 37%.
- ❖ Among marital status of the respondents, mostly unmarried persons are using various BNPL services of 69.6%..
- ❖ On regarding the income level of the respondents, People with income below 20,000 on monthly basis are the most no of users of 54.8%.
- ❖ Regarding the amount of users of BNPL services among the people nearly 63%.
- ❖ In the category of credit options used by the respondents, Credit card has the highest amount of users with 48.9% .
- ❖ Maximum 24.35 % are prefer to More Convenient to Use, 13.91 % are zero/ lower interest rate, 12.17 % are more comprehensible and transparent, 10.43% are none requirement of collateral and easy approval process, 8.70 % are greater flexibility in payments, 6.96 % are lower

penalties and don't prefer to use BNPL services and 6.09 % are prefer for shorter tenure.

- ❖ Maximum 20.87 % of the respondents are used Amazon pay later , 19.13% of the respondents are used flipkart pay later, 18.25 % of the respondents are used Slice, 12.17 % of the respondents are used Ola money post paid and less than 10% of the respondents are used the remaining BNPL Services.
- ❖ Respondents look up to benefits and features of BNPL services are lower rate fees with 22%.
- ❖ Maximum 40.87 % of the respondents are used often to BNPL services, 27.83 % of the respondents are used rarely, 17.39 % of the respondents are used frequently, 8.70 % of the respondents are used sometimes and only 5.22% of the respondents are used always.
- ❖ People mostly purchase other type of products with these credit options and BNPL services with 36.95%.
- ❖ The financial wellbeing of the respondents has no impact that much on using BNPL services with 56%..
- ❖ People are likely to use BNPL services in future with 38%.
- ❖ 43.9% of respondents are likely to recommend BNPL services to their families and friends.
- ❖ All the constructs namely Positive impact, Negative impact and No impact have no significant difference in Area of Living – one way ANOVA.

Suggestions

- ❖ Clearly stated terms and conditions: BNPL services must make sure that their terms and conditions are understandable and unambiguous to clients. Customers will benefit from knowing the conditions of payment and being able to avoid any unexpected fees or charges.
- ❖ Credit checks: In order to determine a customer's capacity to repay a loan, BNPL providers ought to think about putting credit checks in place. This will guarantee that consumers are not taking on more debt than they can manage and help lower the chance of defaults.
- ❖ Repayment flexibility: BNPL suppliers ought to provide clients with choices for flexible repayment, letting them select the frequency and quantity of their payments.

Customers will be better able to handle their money and stay out of default thanks to this.

- ❖ Financial education: BNPL providers must to instruct clients on prudent borrowing practices and offer tools to assist clients in comprehending the dangers of borrowing money. Customers will be better able to make decisions and stay out of debt thanks to this.
- ❖ Integration with budgeting tools: To assist clients in managing their payments and preventing overspending, BNPL suppliers ought to incorporate into financial management applications and budgeting tools. Customers will benefit from being able to manage their money better and keep out of financial trouble.
- ❖ BNPL providers ought to allocate resources towards enhancing their customer service in order to guarantee that their clientele can obtain assistance when required. This will contribute to increasing client loyalty and service trust.
- ❖ Partnership with retailers: In order to guarantee that their service is incorporated into the retailer's checkout procedure, BNPL suppliers want to work together with retailers. Customers will see the BNPL option more frequently as a result, increasing adoption rates.

Conclusion

In recent years, Buy Now Pay Later (BNPL) services have become more and more popular, offering consumers a flexible way to pay for their purchases. Although these services are convenient and flexible, there are hazards associated with them, including the possibility of debt accumulation and financial issues. It is evident from study and analysis that, with the right steps done, BNPL services have the potential to be a responsible and sustainable payment option. Clear and open terms and conditions, credit checks, flexible repayment alternatives, financial education, better customer service, and cooperation with merchants should all be top priorities for BNPL providers. These steps can be taken by BNPL services to assist clients in managing their payments, making wise financial decisions, and avoiding unforeseen circumstances. In the end, BNPL services' viability will rely on their capacity to strike a balance between responsibility and

convenience and make sure that they are a long-term, viable choice for clients.

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