Buy Now, Pay Later: Boon or Bane?

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Abstract

Over the last decade, Buy Now, Pay Later (BNPL) has become one of the most impactful developments in retail finance, especially for younger and credit-constrained consumers and their ability to obtain short-term credit at the point of sale. This conceptual paper explores BNPL as a two-way street financial innovation. It illuminates the mechanics behind BNPL and contrasts it with traditional credit products, examines the arguments for BNPL as a financial inclusion and convenience measure, and considers these in the light of the growing body of evidence of debt stacking, repayment strain and regulatory anxiety. The article places the debate in the Indian market, which is among the fastest-growing BNPL markets in the world, and believes that the benefits or drawbacks of BNPL is not an intrinsic nature of the instrument, but rather depends on the regulatory design, the underwriting discipline of the providers, and the financial literacy of the consumers.

Keywords: Buy Now Pay Later, consumer credit, fintech, financial inclusion, household debt, digital lending

Introduction

Buy now-pay later, is as old as commerce; instalment buying, layaway plans, store credit all have been around for more than a century. What is new is the form: a frictionless, app-embedded, algorithmically underwritten credit line that approves a purchase in seconds, often with zero declared interest, which can be repaid over three, four or six instalments. This re-formulation has enabled a niche checkout feature to become a popular credit rail for hundreds of millions of consumers around the world.

The question raised in the article, “Is BNPL a boon or a bane?” is designed as a false binary that the analysis attempts to break down. BNPL is not a good or bad service, it is a service that can be good or bad. It's a technology whose social and economic impact depends on three factors: its regulation, its underwriting process, and consumer awareness of the technology to which they are signing up. The argument is developed conceptually in this article, based on the evolution of BNPL usage, the benefits it has been demonstrated to provide, the harms it has been shown to cause, and the regulatory steps being taken in India to rectify its issues.

Understanding BNPL: What is the difference?

In terms of structure, BNPL is different than a credit card or personal loan in three ways:

●Point-of-need underwriting. They are approved when they are sold, not as a result of a credit relationship with the Bureau, but using transaction data, device signals and (more and more) bureau checks.

●Fixed rate with no revolving balance. The majority of BNPL products are offered in a fixed amount of instalments, typically spread out over a number of weeks, but do not offer an open-ended revolving line, which mathematically reduces (but doesn't eradicate) the risk of increasing debts.

●Merchant-subsidised economics. Much of BNPL's “interest-free” marketing is based on merchant discount fees, not consumer interest, which incentivize providers based on transaction volume, not consumer indebtedness, at least in theory.

These characteristics help to account for the appeal of BNPL as well as its risk profile: it is designed to be a payment product and not a loan.

The Scale of Adoption

BNPL's growth has been extraordinary by the standards of consumer finance. Globally, the sector is estimated to have processed roughly $560 billion in gross merchandise value in 2025, with active users numbering well over 380 million and projected to approach 670 million by 2028. BNPL now accounts for an estimated 5–6% of global e-commerce payment volume, with considerably higher penetration in markets such as Sweden and Australia.

India illustrates this trajectory sharply. The domestic BNPL market is estimated at roughly \$17–37 billion depending on methodology, having grown at a compound annual rate above 30% between 2022 and 2025, and is forecast to continue expanding at double-digit rates through 2031. Structural conditions specific to India accelerate this: card penetration remains limited to a small share of adults, UPI has normalised instant digital payment behaviour, and a large Gen Z population — which already commands close to two-fifths of BNPL usage by value — actively prefers instalment-based, interest-free spending over revolving credit-card debt.

BNPL as a Boon

Financial inclusion for the credit-invisible

For consumers without a credit card or a sufficient credit history — a large share of India's adult population — BNPL often functions as a first formal credit product. Approval criteria are typically lighter than for a credit card, and the absence of a hard bureau requirement (historically) opened access to first-time borrowers, students, and gig workers who would otherwise be shut out of formal credit.

Genuine budgeting utility

If you are making planned and affordable purchases, then it is a valid cash flow planning method to make a payment in equal instalments. An interest-free three-month split for a salaried consumer who is paying for an appliance repair or medical bill could be significantly less expensive than a cash advance on a credit card or an informal money-lender.

Merchant-side efficiency gains

BNPL has been demonstrated to significantly lower cart abandonment rates and boost average order values at the point of sale, thus driving revenue growth and indirectly jobs in retail and e-commerce environments. This is one of the most obvious and least disputed advantages of the model.

A rail for underserved geographies and use-cases

The entry of BNPL in Tier II and Tier III cities, as well as into other areas where cash was traditionally the main payment mode, such as paying education fees or healthcare costs, has brought the concept of structured, interest-free credit to markets where it was otherwise largely a cash payment.

BNPL as a Bane

The debt ceiling, debt limits and debt capacity.5.3 The causes of problems of debt.5.4 The effects of problems of debt.Since different BNPL operators can authorize small amounts of credit without having full visibility of the other BNPL loans that are in effect, consumers may take out multiple concurrent BNPL loans that add up to an unsecured debt exposure much greater than any one BNPL operator will be able to see. Overall, the data indicates that actual defaults are likely still relatively limited (around 1.8–2% charge-off), but that a far higher proportion of users (on the order of a third to two-fifths) report that they have missed at least one instalment payment, suggesting a significant disconnect between the actual reality of repayment stress and formal delinquency.

Debt stacking

Because multiple BNPL providers can independently approve small credit lines without full visibility into a consumer's other outstanding BNPL obligations, users can accumulate several concurrent instalment plans that, in aggregate, resemble unsecured debt exposure far beyond what any single provider sees. Global data suggests that while outright defaults remain relatively contained (charge-off rates of roughly 1.8–2%), a much larger share of users — on the order of a third to two-fifths — report having missed at least one instalment payment, indicating a meaningful gap between formal delinquency and the lived experience of repayment stress.

Behavioural and psychological framing

From a design perspective, the BNPL process of instant approval, low friction and positioning it as a “payment method” instead of a loan is all about reducing the barrier to spending. Behavioural economics would describe this as an intentional “pain of paying” that can lead to a consumer making a purchase they wouldn't have otherwise made, especially younger and less financially sophisticated consumers make up a higher percentage of BNPL users.

Downstream credit consequences

If BNPL payments become part of a consumer's credit history and if they fail to pay them, they will likely lead to a reduction in the types of credit that they qualify for, and in the amount of credit available. This is because missed BNPL payments or the pattern of adding multiple BNPL lines to a consumer's credit history can negatively impact their eligibility for larger, more meaningful credit lines like home or auto loans — and this cost is often not apparent to the consumer at the time of purchase.

Consumer education and awareness initiatives

App-based small-ticket lending has grown significantly over time, often outpacing the regulatory framework, prompting complaints of the aggressive collection practices, fee structures, and use of data. In India, this created an incentive for the Reserve Bank of India to unify the regulation under Digital Lending Directions, 2025, where BNPL products were included in a single rulebook that includes onboarding, disclosure (in the form of Key Fact Statements), fund flow, and grievance redress — an implicit recognition that the "bane" risks were significant enough to warrant regulation.

Market fragility

The correction has been felt in the market itself as top brands like ZestMoney announced their shut down due to funding and regulation pressure and large banks like ICICI have abandoned certain credit line products like BNPL instead of operating under stricter compliance. This indicates that the areas of growth noted earlier were supported by substandard underwriting conditions which were not maintainable when the regulatory pressure rose.

Toward a Conditional Framework: When Does BNPL Tilt Which Way?

Rather than treating "boon" and "bane" as fixed labels, it is more analytically useful to treat them as outcomes conditional on three factors:

Condition	Tilts toward Boon	Tilts toward Bane
Underwriting rigour	Bureau-informed, income-verified, capped exposure across providers	Purely transaction-based, no cross-provider visibility
Disclosure and design	Clear cost-of-credit disclosure, repayment reminders, single-provider caps	Framing as "free," minimal friction, no aggregate exposure warning

Consumer financial literacy and purpose	Planned, affordable, essential purchases	Impulsive, discretionary purchases beyond repayment capacity

This framework suggests that the regulatory shift already underway in India — toward bureau reporting, standardised disclosure, and lender accountability — is likely to move the market's centre of gravity from the "bane" end of the spectrum toward the "boon" end, at the cost of some of the frictionless convenience that fuelled its early growth.

Conclusion

BNPL should not be viewed as a single credit product with an inherent moral quality, but rather as a technology that has a moral value based on the institutional context in which it is used. When used as intended in the design — in the form of short-term, planned and affordable instalments – it provides real financial inclusion benefits to consumers who are not reached by the traditional credit. It does not adequately disclose, provide cross-provider visibility, and lacks consumer financial literacy, and thus carries many of the same dangers of unsecured over-indebtedness—just packaged in a slicker, less obstructive format. The Indian experience since 2023, which saw a period of growth, high-profile provider exits and a decisive regulatory consolidation in 2025 is a live case study of a market transitioning from the unregulated "bane" phase of a credit innovation to a more regulated "boon" phase. Empirical studies on the demographic and gendered pattern of adoption, risk perception and their relationship to repayment behaviour will be crucial to find out if this regulatory maturation is truly welcomed by the most vulnerable users or if it merely mirrors the inequalities they already experience.

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