

A Study on Impact of Fintech on ‘Buy Now, Pay Later’ Credit Scheme

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Abstract

Technological advancement has been invading the private space of people and the antagonism among the business houses to deliver service at the doorstep at single click of button has brought about tremendous changes in business models and finance schemes. From the traditional model of physical purchase to online shopping, cash payment to UPI payment, there has been a large scale changes in the last decade and has been actively accepted by the people. In this research paper, an attempt is made to study the role played by these fintechs on the credit scheme ‘buy now, pay later’. The paper will provide an insight into the functioning of fintechs and the credit scheme, their consequences on people. The paper concludes that both fintech and the ‘Buy Now, Pay Later’ credit scheme being unregulated, may lead to a vicious circle spiraling into huge credit bubble thus preparing the ground for another economic recession.

Key words: - Fintech, Buy Now, Pay Later, Credit Scheme, Digital Payment

Introduction

Fintech in India

Fintech is a portmanteau of the words ‘finance’ and ‘technology’. Fintech means providing the financial services of lending and borrowing to the customers with the help of technology. This embraces the sms alerts, credit and debit cards, applications of banking and non-banking financial institutions, the emerging developments of cryptocurrency, digital bonds and block chain technology. With the advancement of technology aiding every aspect of business, financial lending services have modified themselves to adapt to the ever changing business conditions. Fintechs have changed the landscape of lending services from the traditional loans to modified versions where credit is available instantly without hassles.

Fintechs are technological applications providing financial services, which avoids personal visit to the bank branch, make transactions over phone without waiting and most important safely. Though there has been security measures in place, cyber threats and frauds pose a risk for the use of fintechs.

Buy Now, Pay Later in India

‘Buy Now, Pay Later’ is a modified version of the traditional credit lending installment system of purchasing. This has been trending of lately, due to the benevolent support provided by the fintechs. The traditional system of installment financing would commence at the point of sale, when customer buys and is allowed to pay the same in installments at later date or period without any interest charge.

‘Buy Now, Pay Later’ works on the same grounds as installment scheme. The notable difference is that this concept works mostly on the fintechs. These fintechs and e-commerce applications allow the consumers to purchases goods and pay the same amount in maximum of 4 installments without any additional charge or interest. A late fee is charged, when the consumer fails to pay the installment on time stipulated. The growing technological advancement has brought the Traditional system of installment purchase back to use with modified conditions.

Fintech and Buy Now, Pay Later

The snowballing effect of fintechs is the rediscovery of installment scheme ‘Buy Now, Pay Later’. In the early stages of fintech development, consumers had to pay for the products from their bank accounts either with debit card or credit cards. Installment payments were available for products with larger value. In order promote business, the companies have marketed a new financing option of ‘Buy Now, Pay Later’, which enables the consumers to buy the products with no money in hand and pay later.

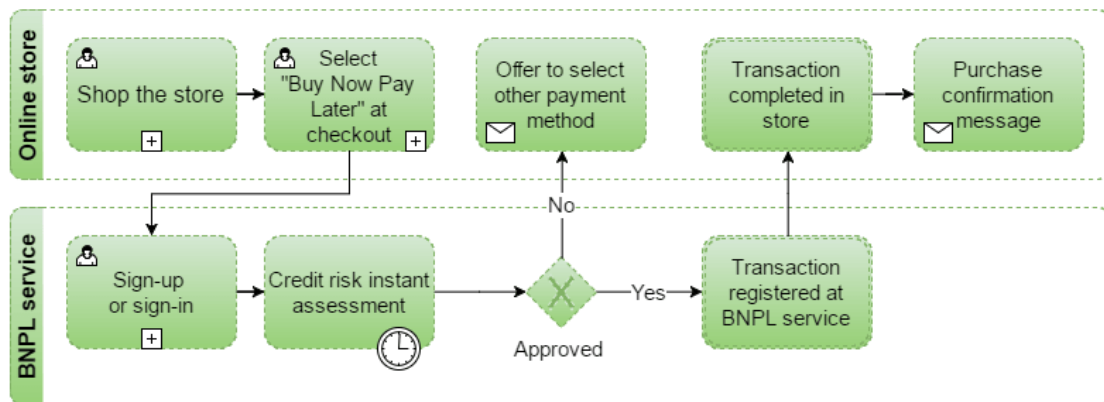
It is important to note that credit extension scheme is a part of fintech and both are unregulated. In India, though RBI has been acting as watchdog on these latest technological developments, there has been no discrete law or regulation being passed to protect the consumers from any hazards of fintechs and the credit scheme. The regulations are under the discussion stages and stricter measures to curb any untoward effects of fintechs and credit scheme are yet to be established.

In the report submitted by the committee established by Reserve Bank of India under the leadership of Mr. Sudarshan Sen(2016), for the purpose of studying the fintech and its wide usage, the committee has accepted the disruptions brought about by the fintech in the Indian Financial landscape. They have pointed out the need to establish a regulatory authority or a self- regulatory body on similar lines with IRDA and AMFI. As of 2020, the RBI has been testing the establishment of sandbox to regulate the fintechs in the country.

Functioning of Fintech and Buy Now, Pay Later

As mentioned in 1.3 the credit scheme of ‘Buy Now, Pay Later’ is integrated in the fintech. The modus operandi of ‘Buy Now, Pay Later’ within the fintech has been presented as below.

Buy Now Pay Later (BNPL) solutions high level diagram



(c) www.magenable.com.au, 2016

Source: - <https://grm.institute/blog/research-study-on-buy-now-pay-later-bnpl/>

The customer shops on the online portal of an e-commerce site and purchases certain products. In the payment option, the customer opts for BNPL, which is backed by BNPL service providing company, who will extend the service based the customer’s credit score. Once the transaction is complete, the customer takes home the product and pays back later in maximum of four installments.

The companies providing the BNPL service associate with certain brands and companies. This enables the customers to purchase and the business houses to promote products. When a transaction takes place through the BNPL, the BNPL company pays the sale amount to the brand associated. The sale value of the product is later recollected from the customer in installments. The BNPL companies often utilize loans and funds raised to meet the gap

between the payment to companies and recollection of debt from customers. The customers are not charged any interest in the credit period which makes it lucrative than credit cards.

<p>Key Partners</p> <ul style="list-style-type: none"> • Payment Lenders • Merchants (E-com / POS platforms) 	<p>Key Activity</p> <ul style="list-style-type: none"> • POS lending • Product Development • Global Opportunities 	<p>Value Propositions</p> <ul style="list-style-type: none"> • Flexibility • Conversion rate • Average order value • Retention 	<p>Customer Relationships</p> <ul style="list-style-type: none"> • Loyalty and reward program • Flexible payment 	<p>Customer segment</p> <ul style="list-style-type: none"> • Early phases : Millennials and Gen Z • Evolved phase: Gen X • Merchants
	<p>Key Resources</p> <ul style="list-style-type: none"> • Brand value • Merchant Relationships 		<p>Channel</p> <ul style="list-style-type: none"> • Merchant checkout • Card linked installments 	
<p>Cost Structure</p> <ul style="list-style-type: none"> • Technology development and customer acquisition • Regulatory and Compliance Fees 			<p>Revenue Stream</p> <ul style="list-style-type: none"> • Merchant Fees • Late Payment Fees 	

Source: - <https://grm.institute/blog/research-study-on-buy-now-pay-later-bnpl/>

The above picture gives a bird’s eye view of functioning of the BNPL platforms. The BNPL providers enter into partnership with lenders or banking institutions and put those funds in use for the agreement with business houses. Their main target are the Gen Z and Millennials and a certain segment of Gen X. The cost of operating this mode of credit business involves technological development and customer acquisition and regulatory and compliance fees. The mainstream of revenue is the merchant fees from partner brands and late payment fees from customers.

The BNPL companies primarily being fintechs focus on customer retention by providing flexible payment option, loyalty programs and reward programs, thus pushing the sales for the companies.

Literature Review

A review of literature in this area of study brings forth to light the discerning matters which require immediate response and action.

a. Regulation of BNPL

Guttman-Kenney, B., Firth, C., & Gathergood, J. (2023) have raised concerns on the credibility of model and urged the need to study the modus operandi of the mechanism and its impact at the micro and macro levels of the economy.

Purnima Singh and Chrysann D'Souza, (2022) in their paper 'Buy Now, Pay Later' – Evolution of Consumer Credit have pointed out that the BNPL companies are required to register with the RBI as NBFC due to comprehensive meaning of NBFC defined by RBI. This requirement makes the Fintechs to partner with companies registered as NBFC, thus indicating there is no direct or indirect monitoring and control of both the Fintechs and BNPL companies.

Chandrima Sikdar (2022) in the column on BNPL has rightly pointed that intervention by RBI by tightening the norms provides a sense of security in the meantime, the BNPL industry which is in the infancy stage has projected its enormous potential of growing into maturity stage, for which the regulator has to be prepared.

Johnson, D., Rodwell, J., & Hendry, T. (2021) stressed the need for regulations of the fintech sector. The dangers of this unregulated financial sector may cause a systemic problem and consequently the world has to witness an economic crisis.

b. Consumer Spending and Credit Risk

Guttman-Kenney, B., Firth, C., & Gathergood, J. (2023) have emphasized the need to analyse the 'Buy Now, Pay Later' mechanism as it pushes the consumers unsecured debt bill. Further, these bills may be repaid by additional loans or credit, thus thrifting the consumer spending with a spiraling upward debt crisis.

Purnima Singh and Chrysann D'Souza, (2022) in their paper 'Buy Now, Pay Later' – Evolution of Consumer Credit have thrown light on the various risks which are consequence of the BNPL. The most important being the credit risk – defaulting by customers which may bring a cash crunch to the BNPL companies and interest risk – rise of interest on loans borrowed from lenders by the BNPL companies.

Di Maggio, Marco, Emily Williams, and Justin Katz.(2022) in their working paper titled "Buy Now, Pay Later Credit: User Characteristics and Effects on Spending Patterns' have also expressed the same concern of consumers overspending and making them purchases unnecessary goods which are of least utilization to them. Thus pushing the consumers into vicious credit cycle of paying the unpaid bills and leading to financial distress.

Chandrima Sikdar (2022) in the column for the daily Financial express has pointed out to the data that indicates the upsurge in India in the usage of fintechs and BNPL. As per present

data reported by Experian, the BNPL transactions in the country have surged by 22 per cent during the first half of 2022 and this is 3 per cent more than the global growth.

Johnson, D., Rodwell, J., & Hendry, T. (2021) have brought to light the wider and quicker acceptance of the fintechs and ‘Buy Now, Pay Later’ model by the customers, indicating the need for government interventions and regulations, as the customers are quickly embracing the technological advancements exposing themselves to a greater credit risk and unforeseen hazards.

c. Impending Undetected risks

Though the BNPL model appears lucrative for all the stakeholders involved, the picture is not as rosy as projected by the figures indicating upsurge in the adapting the BNPL model.

Kyle Peterdy (2023) in the column on BNPL has opened on the underwriting risk of credit by the lenders of money to the BNPL. The situation of Klarna, a Swedish BNPL company raising funds at 85% lesser than its valuation is an alarm for business houses and the regulators of the hidden risk.

Alcazar, J., & Bradford , T. (2021, December 1) find that there is increasing competition among the BNPL providers and the commercial banks. The banks have now jumped into action to study the BNPL financing and are working with the BNPL providers to minimize the competition.

Research Methodology

Research Objectives

The objective of undertaking this research has been pointed as follows: -

- To analyse the awareness of ‘buy now, pay later concept’ among the consumers
- To diagnose the acceptance of adopting buy now pay later credit model
- To analyse the depth of fintechs in e-commerce

Research Gap

From the literature review, it is discovered that studies have focused on the frequency of purchases and usage of BNPL, but there is lesser coverage on the area of understanding the relation between fintechs and BNPL. BNPL being the integral part of fintechs necessitate

study as both are emerging developments well accepted but unguarded. This research paper brings to light the correlation between the fintechs and BNPL.

Data Collection

Primary source: - A Structured questionnaire was administered to collect the information on usage of BNPL. Random sampling has been followed and 32 respondents have recorded their answers.

Secondary source: - Journal articles published prior to the research and few columns in the popular dailies have been scrutinized for the literature review.

Limitations

- The personal biases of the respondents may affect the studies.
- The study is taken up on micro scale.

Empirical Analysis

1 Age group of the respondents

Age Group	No. of Respondents
21-30	9
31-40	21
41-50	2
51-60	0

Source: Primary Data

The above table indicates that the respondents are Gen Z and millennials.

2 Gender Composition

Gender	No. of Respondents
Male	15
Female	17

Source: Primary Data

The above table shows the gender wise distribution of respondents and female respondents outnumber the male respondents.

3. Occupation

Occupation	No. of Respondents
Government Servant	8
Self employed	3
Professional	9
Private employee	12

Source: Primary Data

The above table shows that private employees and professional comprise the larger chunk of number of respondents.

4 Income

Income	No. of Respondents
< 30,000	14
30,000-50,000	8
50,000-75,000	2
75,000-1,00,000	7
> 1,00,000	1

Source: Primary Data

The above table states that the income level of the respondents and the number of respondents with income lesser than Rs. 30,000 constitute a major share.

5. Awareness Level

Awareness level	No. Of Respondents
Aware	15
Familiar	14
Well versed	3
Proficient	0

Source: Primary Data

The above table indicates that of the 32 respondents, 29 respondents have a fair knowledge of the BNPL concept.

6. Use of BNPL

Use of BNPL	No. of Respondents
Yes	13
No	19

Source: Primary Data

13 respondents have made use of the 'Buy Now, Pay Later' model, which has been presented in the above table.

7. Purpose of using BNPL

Purpose of using BNPL	No. of Respondents
Physical shopping - essentials	7
Online shopping	9
Borrow money	2
Other	3
None	11

Source: Primary Data

The above table sheds light on usage of BNPL, whereby it is found that the purpose of using BNPL is scattered and the non-users form the largest share. This indicates though the model has been accepted and used, there still remains a large number of customers unwilling to try the new mechanism.

8. Benefits of BNPL

Benefits of Pay later	No. of Respondents
Easy credit option	9
Easy repayment	7
Easy shopping	9
Lesser financial stress	7

Source: Primary Data

The above table shows that respondents are divided almost equally among the benefits offered by the BNPL.

9. Purchase frequency

Frequency of Purchase	No. of Respondents
Once in a week	2
Once in a fortnight	2
Once in a month	16
2-5 in a month	8
> 5 in a month	4

Source: Primary Data

The table is the evident proof that people are actively using fintechs and utilize fintechs in purchases, as the number of respondents making at least one purchase a month scores the highest.

10. Credit availed under BNPL

Credit Amount Availed	No. of Respondents
< 5,000	12
5,000-10,000	4
10,000-25,000	4
25,000-50,000	2
Never availed	10

Source: Primary Data

The above table expresses that consumers have tried using the model with smaller amounts than bigger credit. This signifies that consumers are experimenting with model and exploring the risks and benefits of using this form of credit. As the method of credit being served over the technology is novel to the customers, there is also a considerable number of customers unwilling to experiment with the model.

11. Frequency of availing BNPL

Frequency of using BNPL	No. of Respondents
1-2 times	5
2-5 times	4
Every purchase	2
Rarely	21

Source: Primary Data

Though people are active on fintechs, the BNPL credit scheme has largely been untouched. This is possible due to the new model of credit being extended, unawareness about functioning of the model.

12. Frequency of using BNPL

Use of BNPL	No. of Respondents
Online Shopping	12
Offline Shopping	6
Both Online & Offline	1
Never	13

Source: Primary Data

13. Evaluation of BNPL in terms of security

Evaluation of BNPL	No. of Respondents
Excellent	4
Good	10
Moderate	11
Satisfying	4
Poor	3

Source: Primary Data

The above table shows that respondents are satisfied with the BNPL scheme, but still there is scope for improvement. As mentioned earlier, both fintechs and BNPL are unguarded, this may act as a setback.

14. Access to BNPL when using fintech

Access to BNPL	No. of Respondents
Very important	6
Important	10
Not necessary	13
Never use	3

Source: Primary Data

As the respondents are moderately happy with the security, the importance placed for access to BNPL is also lesser. This can be due to the other credit schemes being easily available and familiar.

15. Drawbacks of BNPL

Drawbacks	No. of Respondents
Increases impulse buying	13
Increased repayment burden	9
Unguarded spending	7
All above	3

Source: Primary Data

The respondents have expressed that such a model may lead to increased impulse buying and buying unnecessary items.

16. Security on BNPL transaction

Security	No. of Respondents
Most Satisfying	4
Satisfying	12
Moderate	8
Neutral	5
Dissatisfying	3

Source: Primary Data

The above table shows majority of the respondents have a satisfactory sense of security while using BNPL.

17. Recommendation to others

Recommend	No. of Respondents
Yes	8
No	2
Maybe	19
Never	3

Source: Primary Data

Due to the safety concerns and being a new credit model, majority of the respondents expressed uncertainty in recommending the BNPL credit scheme to their acquaintances.

18. Future usage of BNPL

Usage in future	No. of Respondents
Every Purchase	2
Frequently	5
Only if necessary	23
Never	2

Source: Primary Data

As the BNPL model is yet to gain popularity and acceptance by the consumers, only if necessary the respondents may use BNPL in future

Findings and Conclusion

Findings

- The above studies show that, the respondents are aware of the BNPL credit model, but there is hesitation in using the same, may be due to novelty of the scheme, security of transaction, lesser knowledge and no wide acceptance.
- Though the respondents have tried this credit model, there is reluctance in using the BNPL model frequently. The consumers have restricted themselves to use this credit scheme only if they are compelled to do so.
- Safety of money and transactions on the fintechs are matter of concern for the respondents and hence acts as a barrier in the acceptance of the model.

Conclusion

- The research study shows that though BNPL credit model has been introduced and used by many, the BNPL model is still in the introduction stage of life cycle.
- The research also shows there is some kind of psychological barrier on the part of the respondents, as the uncertainty about using BNPL frequently is clearly visible.
- There is need for more regulatory measures and also an establishment of an Act governing these newer areas of business developments and models.
- Lack of knowledge about the model and its functioning, lack of governing measures deter people from using and makes them use the older credit models available.

From the above research studies, it can be concluded that, with proper awareness creation and regulatory measures, the BNPL will gain momentum. Simultaneously, there is a need to keep check, as an unregulated financial services sector can be the cause of the creation of credit bubble. As easy credit is available at a single click, it tempts the consumers to buy unnecessary goods, increase the credit burden and push the economy towards an artificial growth but in reality, it may be debt spiraling upwards into vicious cycle.

Though consumers are aware of the side effects of the BNPL, the governing bodies have to quickly swing into action and initiate appropriate measures to keep this kind of credit model under restraints and the economy safe.

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