

AN ANALYSIS OF CONCEALED FINANCIAL RISKS IN BUY NOW, PAY LATER SERVICES IN CHENNAI CITY

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ABSTRACT

This research study explores the hidden financial risks in Buy Now, Pay Later (BNPL) schemes from a user perspective. It aims to understand how BNPL affects budgeting, spending behavior, and financial stability. Primary data was collected through a structured questionnaire from 100 respondents using convenience sampling technique. Tools such as percentage analysis, chi-square test were used to interpret and examine the data. The study highlights that while BNPL offers flexibility, many users face repayment struggles due to lack of awareness and impulsive spending. Findings suggest a need for better user education and regulation. Overall, the research concludes that BNPL, though it is convenient, may lead to long-term financial pressure if not used correctly.

KEY WORDS BNPL, Financial risk, Budgeting, Spending Behavior, Financial stress.

INTRODUCTION

Buy Now, Pay Later (BNPL) is a new payment method based on credit that enables customers to shop and pay later in installments, frequently with no interest. In contrast to conventional credit cards, BNPL services offer an effortless and flexible payment arrangement, which makes them especially popular among young consumers and those who are not eligible for conventional credit lines. BNPL lenders like lazypay, and simpl have increased in popularity because their interfaces are easy to use and easy to approve.

Review of Literature

BNPL and Its Role in Financial Technology Innovation , White. P (2023)¹ analyzed Buy Now, Pay Later (BNPL) as a financial technology (fintech) innovation, focusing on its disruptive role in the industry. Using descriptive statistics and factor analysis, the study highlighted how BNPL is transforming the fintech landscape by offering consumers an alternative to traditional credit options. The findings indicate that BNPL has gained significant traction as a disruptive innovation, particularly among tech-savvy consumers. However, the study also points out that the rapid growth of BNPL requires better regulatory oversight to ensure consumer protection and prevent potential financial instability. BNPL and Its Role in Financial Inclusion in Developing Countries , Chen,. L (2023)² explored the role of Buy Now, Pay Later (BNPL) in financial inclusion in developing countries, using descriptive statistics and factor analysis. The study found that BNPL significantly improves financial inclusion by providing access to credit for individuals who may not have traditional banking services or credit histories. This increased accessibility helps consumers in developing countries make essential purchases. The study also highlights the need for stronger consumer protection laws to ensure that users are not exploited and to prevent potential financial instability.

Hidden Risks Associated With BNPL

1. Unknown cost and fees:

Buy Now, Pay Later (BNPL) schemes frequently promote "0% interest" to attract users. However, they may include hidden charges such as processing fees, late payment penalties, or service charges that can quietly pile up. Some providers also impose high penalties if even one installment is missed, making the overall cost much higher than anticipated.

2. Encourage Impulse spending:

Because BNPL breaks down payments into small, convenient portions, people are more likely to make impulsive purchases. This gives a false sense of affordability and encourages buying items they may not truly need or can't realistically afford, which can ultimately lead to overspending and unnecessary

financial stress.

3. Lack of Consumer protection:

BNPL does not offer the same level of consumer protection as credit cards. For instance, features like charge backs in the event of fraud or disputes are generally unavailable. If a BNPL provider shuts down or there are issues with a transaction, getting a refund can be difficult or even impossible.

4. Financial pressure:

Although BNPL makes purchases seem affordable, users are still committing to future payments. If their financial circumstances changes—due to job loss, illness, or emergencies—managing several ongoing BNPL installments can lead to significant mental and financial strain.

OBJECTIVES OF THE STUDY

1. To study the factors that influence consumers to choose BNPL schemes.
2. To evaluate consumer awareness of the financial implications of BNPL schemes.
3. To identify the financial issues faced by users of BNPL schemes.
4. To assess the impact of BNPL schemes on the overall financial health of users.
5. To examine the role of BNPL schemes in shaping consumers' future financial decision-making.

SCOPE OF THE STUDY

The study examines BNPL's impact on consumer financial behavior, debt accumulation, and budgeting. It explores hidden risks like overspending, late fees, and credit score effects. Regulatory gaps and consumer protection challenges are analyzed. A survey-based approach helps assess real user experiences with BNPL. The study aims to provide insights for better financial awareness and policy improvements.

LIMITATIONS OF THE STUDY

- This study is limited to individuals using BNPL.
- The survey might attract only certain groups, such as young users or frequent online shoppers.

RESEARCH GAP

Most existing studies focus on the growth and convenience of BNPL services but overlook the consumer-side financial risks such as hidden fees, debt buildup, and credit score impact. There's limited research on how multiple BNPL plans, lack of credit visibility, and low consumer awareness contribute to long-term financial stress—especially among young and low-income users. The psychological triggers of impulse buying and lack of consumer protection in BNPL remain underexplored. Existing literature also fails to address how BNPL affects real-life budgeting, spending behavior, and emotional well-being. This

study highlights how BNPL schemes, though marketed as interest-free, can lead to financial strain, debt traps, and reduced credit health from a consumer's point of view.

RESEARCH HYPOTHESIS

H0: There is no significant association between age and BNPL usage frequency.

H0: There is no significant association between income levels and savings behavior.

H0: There is no significant relationship between income levels and the primary reason for choosing BNPL services.

DATA COLLECTION METHOD

Primary Data

Primary data refers to original and first-hand information collected directly from sources for a specific research purpose. It is obtained through methods such as surveys, interviews, observations, and experiments, ensuring relevance and accuracy. As it is directly gathered from respondents, primary data is considered reliable and tailored to meet the study's objectives.

Secondary Data

Secondary data refers to information that has already been collected, analyzed, and published by other researchers, organizations, or institutions. It is obtained from sources such as books, journals, government reports, company records, and online databases.

Sampling Design

For this study Convenience Sampling Method is used. A convenience sample is a type of non-probability sampling method where the sample is taken from a group of people easy to contact or to reach.

Sample Size

The sample size taken as 100 for the survey from individuals using BNPL through structured questionnaire. Research area for the study is Chennai city only.

ANALYSIS AND INTERPRETATION OF DATA

Table 1.1 Showing Percentage Analysis of Respondents by Occupation.

| Occupation | No. Of Responses | Percentage |
|-------------------|------------------|------------|
| Salaried Employee | 65 | 65 |
| Self Employed | 18 | 18 |
| Home Maker | 14 | 14 |
| Retired | 2 | 2 |
| Farmer | 1 | 1 |
| Total | 100 | 100 |

Salaried employees form the majority 65% indicating that BNPL services are widely used by those with stable incomes. Self-employed individuals account for 18%, showing moderate adoption. Homemakers (14%) also engage with BNPL, while retirees (2%) and farmers (1%) have minimal participation, suggesting lower relevance for them.

Chart 1.1 Showing percentage of respondents by occupation.

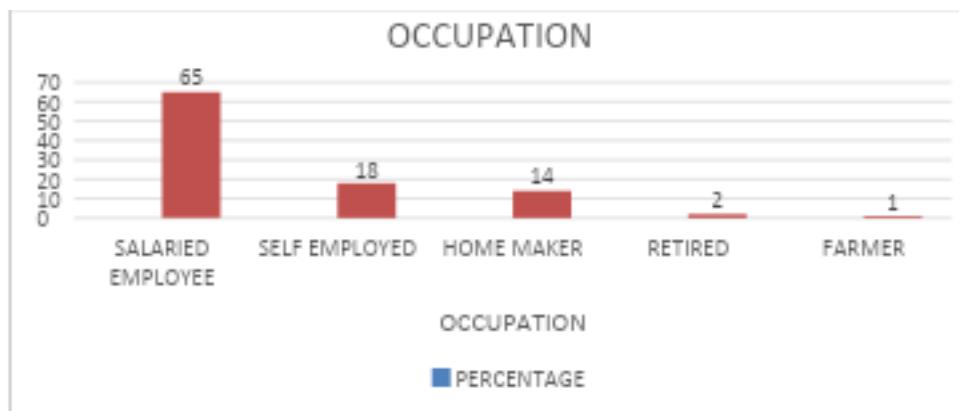


Table 1.2 Showing Percentage analysis of Respondents by Monthly Income

| Monthly Income | No. of Responses | Percentage |
|----------------|------------------|------------|
| Below ₹20000 | 42 | 42 |
| ₹20000- ₹40000 | 37 | 37 |
| ₹41000- ₹60000 | 12 | 12 |
| Above ₹60000 | 9 | 9 |
| Total | 100 | 100 |

A significant 42% of respondents earn below ₹20,000, indicating BNPL's popularity among lower-income groups. The ₹20,000–₹40,000 range follows with 37, showing strong middle-income adoption. Higher-income group's ₹41,000–₹60,000 at 12% and above ₹60,000 at 9% have comparatively lower usage, suggesting BNPL is more favored by those with limited disposable income.

Chart 1.2 Showing percentages of Respondents by Monthly Income.

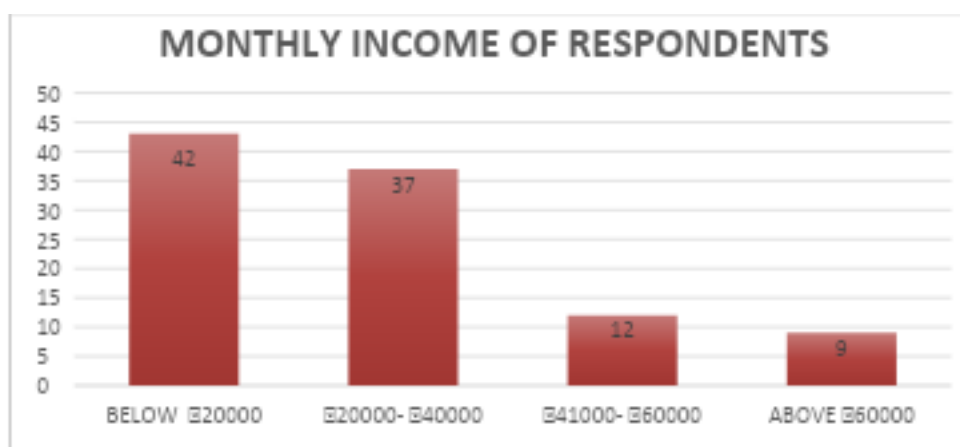


Table 1.3 Showing Percentage Analysis of Respondents Usage of BNPL.

| Usage | No. of Respondents | Percentage |
|--------------|--------------------|------------|
| Rarely | 51 | 51 |
| Ocassionally | 40 | 40 |
| Frequently | 9 | 9 |
| Total | 100 | 100 |

The survey results show that a majority of respondents (51%) use the service rarely, indicating low engagement. Around 40% use it occasionally, suggesting a moderate level of interest, while only 9% use it frequently, showing minimal regular usage. This highlights the need for strategies to increase user engagement and promote more frequent usage.

Chart 1.3 Showing Percentage of Respondents Usage of BNPL.

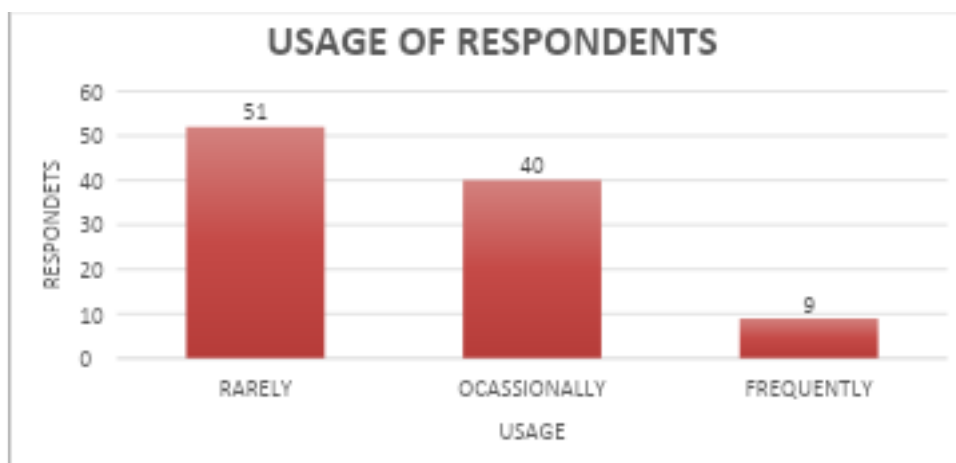


Table 1.4 Showing Percentage Analysis of Respondents Awareness Towards Hidden Charges In BNPL.

| Awareness Towards Hidden Charges | No. of Respondents | Percentage |
|----------------------------------|--------------------|------------|
| Yes, I'm Aware | 62 | 62 |
| No, I'm Not | 38 | 38 |
| Total | 100 | 100 |

The survey shows that 62% of respondents are aware of hidden charges, indicating a fair level of financial awareness. However, 38% are unaware, highlighting a significant knowledge gap. This suggests the need for better transparency and consumer education on hidden costs.

Chart 1.4 Showing Percentage of Respondents Awareness Towards Hidden Charges in BNPL

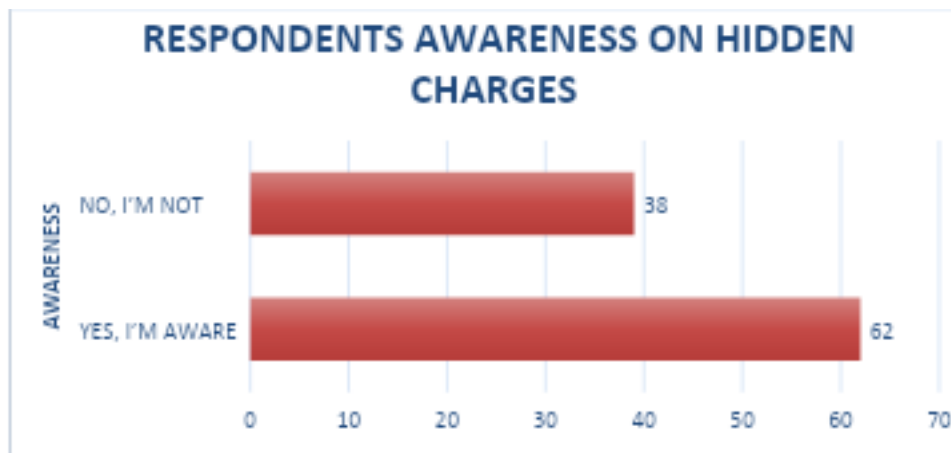


Table 1.5 Showing association Between Age And Usage of Respondents Using Chi Square Analysis.

Cross Tabulation Showing Age and Usage

Null Hypothesis (H0): There is no significant association between age and BNPL usage frequency.

Alternative Hypothesis (H1): There is a significant association between age and BNPL usage frequency.

| | Cases | | | | | |
|--------------|-------|---------|---------|---------|-------|---------|
| | Valid | | Missing | | Total | |
| | N | Percent | N | Percent | N | Percent |
| AGE * | 100 | 100.0% | 0 | .0% | 100 | 100.0% |
| USAGE | | | | | | |

| | USAGE | | | Total |
|----------|----------|----------|--------|-------|
| | FREQUENT | OCCASION | RARELY | |
| 20-30 | 4 | 21 | 23 | 48 |
| 31-40 | 1 | 6 | 4 | 10 |
| 41-50 | 1 | 12 | 16 | 29 |
| ABOVE 50 | 3 | 1 | 9 | 13 |
| Total | 9 | 40 | 51 | 100 |

| | Value | df | Asymp. Sig. (2-sided) |
|---------------------------|-----------|----|--------------------------|
| Pearson Chi-Square | 11.115(a) | 8 | .195 |
| Likelihood Ratio | 12.386 | 8 | .135 |
| N of Valid Cases | 100 | | |

Interpretation:

The **p-value (0.195)** is greater than **0.05**, we accept null hypothesis. This means that **there is no significant relationship between age and BNPL usage frequency** in the above data.

Table 1.6 Showing Association Between Income And Savings Of Respondents Using Chi Square Analysis.

| | SAVINGS | | | | Total |
|--------------------|---------|------|----|----------|-------|
| | LESS | MORE | NO | NOT SURE | |
| INCOME 20000-40000 | 12 | 5 | 15 | 5 | 37 |
| 41000-60000 | 5 | 1 | 2 | 4 | 12 |
| Above 60000 | 2 | 3 | 0 | 4 | 9 |
| Below 20000 | 19 | 14 | 2 | 8 | 42 |
| Total | 38 | 23 | 19 | 20 | 100 |

Cross Tabulation Showing Income and Savings

Null Hypothesis (H_0): There is no significant association between income levels and savings behavior. In other words, income does not influence how much individuals save.

Alternative Hypothesis (H_1): There is a significant association between income levels and savings behavior. This means that different income groups have different savings patterns.

| | Cases | | | | | |
|--------------------|-----------|---------|-----------------------|---------|-------|---------|
| | Valid | | Missing | | Total | |
| | N | Percent | N | Percent | N | Percent |
| INCOME * SAVINGS | 100 | 100.0% | 0 | .0% | 100 | 100.0% |
| | Value | df | Asymp. Sig. (2-sided) | | | |
| Pearson Chi-Square | 26.080(a) | 9 | .002 | | | |
| Likelihood Ratio | 27.253 | 9 | .001 | | | |
| N of Valid Cases | 100 | | | | | |

Interpretation: Since the p-value (0.002) is **less than 0.05**, we reject the **null hypothesis (H_0)** and accept the **alternative hypothesis (H_1)**. This indicates that **income levels significantly affect savings behavior**.

FINDINGS OF THE STUDY

- ☐ 35% of users choose BNPL mainly for **convenience**.
- ☐ 33% prefer it for **payment flexibility**, showing its appeal in managing expenses.
- ☐ 26% use BNPL to buy **expensive products without upfront payment**, indicating affordability is a strong driver.
- ☐ 42% use BNPL for **electronics and gadgets**, showing it's popular for tech-related needs.
- ☐ 70% of respondents struggle to repay BNPL—18% frequently and 52% occasionally.
- ☐ 79% agree BNPL encourages **overspending**.
- ☐ 33% report **difficulty in managing multiple payments**, and 48% recognize both overspending and payment struggles.
- ☐ 76% have delayed **essential expenses** due to BNPL.
- ☐ 25% say BNPL caused **financial stress**, and 20% report actual **financial problems**.
- ☐ Only 31% feel BNPL helped them **manage finances better**.

- ☐ 62% say their overall financial health **remained the same**, showing limited positive change.
- ☐ 13% report **worsened financial health** due to BNPL usage.
- ☐ 38% report **fewer saving**, showing negative effects on long-term financial security.
- ☐ 79% believe BNPL encourages **overspending**, which could affect future budgeting.
- ☐ 48% of users wouldn't recommend BNPL, implying a cautious or negative outlook.
- ☐ 76% have delayed **essential payments**, which can influence future financial planning.

SUGGESTIONS

- **Promote Financial Literacy on BNPL** – Many users are unaware of hidden charges and financial risks. BNPL providers should improve transparency and educate consumers on repayment terms and fees.
- **Encourage Responsible Borrowing** – Since BNPL leads to overspending for a majority of users, financial awareness campaigns should be conducted to promote mindful spending habits.
- **Offer More Flexible Repayment Options** – To reduce financial stress, BNPL providers could introduce customizable installment plans based on users' income cycles.
- **Increase Awareness of Credit Score Impact** – Many users are unaware of how BNPL affects their credit scores. Companies should clearly communicate the potential long-term financial consequences.
- **Encourage Savings Alongside BNPL Usage** – Financial institutions and BNPL providers can introduce savings-linked BNPL programs where a portion of each installment goes into a savings account.

CONCLUSION

Buy Now, Pay Later (BNPL) has revolutionized the way consumers shop, offering easy access to credit without the complexities of traditional loans. While it provides financial flexibility and convenience, it also poses risks such as overspending, hidden charges, and repayment difficulties. Many users are unaware of the long-term impact BNPL can have on their financial health, including its effect on savings and credit scores. To ensure responsible usage, BNPL providers must focus on transparency, better repayment structures, and financial education for consumers. Stricter regulations can help prevent users from falling into debt traps, while improved budgeting tools can encourage mindful spending. Financial

awareness campaigns should emphasize the importance of timely payments and understanding the terms of BNPL services. With proper guidance and consumer responsibility, BNPL can be a valuable financial tool rather than a burden. A balanced approach—combining accessibility with accountability—will be essential for its sustainable growth.

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WEBSITE SOURCES

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2. Buy Now Pay Later: https://en.wikipedia.org/wiki/Buy_now_pay_later
3. EMI: https://en.wikipedia.org/wiki/Equated_monthly_installment

ANNEXURE

Questionnaire:

1. What is your age?

- Below 20
- 20-40
- 41-50
- Above 51

2. What is your gender?

- Male
- Female

3. What is your occupation?

- Salaried employee
- Self employed
- Homemaker
- Other: _____

4. What is your monthly income?

- Below 20000
- 20000-40000
- 40000-60000
- Above 60000

5. How often do you use BNPL service?

- Rarely
- Occasionally
- Frequently

6. What is your primary reason for using/will use BNPL?

- To buy expensive product without upfront payment
- Because of convenience
- Flexibility in payments

7. What type of purchases do/will you make in BNPL?

- Electronics and gadgets

- Fashion
- Groceries
- Others: _____

8. How did you first hear about BNPL schemes?

- Online ads
- Friends/relatives[word of mouth]
- Social media
- Other : _____

9. Are you aware that failing to repay BNPL installments will affect your credit score?

- Yes
- No
- Not sure

10. What do you think happens if you miss BNPL payments?

- You are charged an interest/penalty
- Extended repayment period
- Nothing happens
- Not sure

11. Are you aware that some BNPL schemes may have hidden charges?

- Yes, I am aware
- No, I am not

12. What is the potential risk of frequently using BNPL?

- Overspending
- Difficulty in managing multiple payments
- Both
- None
- Other: _____

13. Have you ever struggled to repay BNPL?

- Frequently
- Occasionally
- Never
- Not applicable

14. Do you feel BNPL encourages you to overspend beyond your budget?

- Always
- Sometimes
- Never
- Not sure

15. How has, using BNPL impacted your financial health?

- Helped me manage finance better
- Caused financial stress
- Caused financial problems
- No Impact

16. How has using BNPL affect your savings?

- Less savings
- No savings
- More savings
- Not sure

17. Have BNPL payments ever caused you to delay other essential expenses [rent, bills]?

- Often
- Rarely
- Never

18. How is your financial health after using BNPL scheme?

- Improved
- Remained same
- Worsened
- Not sure

19. What BNPL platform/ subset do you use?

- EMI[Equated Monthly Installment]
- Lazypay
- Simpl
- Amazon/flipkart pay later
- Other: _____

20. Will you recommend others to use BNPL based on your experience?

- Yes
- No