

## Customer Perception of Buy-Now-Pay-Later (Bnpl) Schemes and Its Impact On Retail Sales & Credit Risk

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### Abstract

Buy-Now-Pay-Later (BNPL) schemes have become an increasingly popular payment option in the retail sector, offering consumers the ability to purchase products immediately while paying in instalments over a short period. The growing integration of BNPL into online and offline retail platforms has significantly influenced consumer purchasing behaviour and payment preferences. This study examines customer perception of BNPL schemes and analyses their impact on retail sales performance and credit risk. The research focuses on key perceptual dimensions such as convenience, perceived affordability, ease of access, transparency of repayment terms, and trust in BNPL providers. It further explores how these perceptions affect purchase intention, impulse buying, and overall spending patterns. In addition, the study evaluates the credit risk implications of BNPL usage by examining repayment behaviour, payment delays, and the likelihood of over-borrowing among consumers. The findings indicate that favourable customer perceptions of BNPL contribute to increased retail sales by enhancing conversion rates and average order value. However, the study also reveals that excessive or uninformed use of BNPL can lead to higher credit risk, particularly in the form of missed payments and financial stress. The research highlights the importance of responsible BNPL practices, consumer awareness, and effective risk management to ensure sustainable growth for retailers and financial service providers.

**Keywords:** Buy-Now-Pay-Later (BNPL), Customer Perception, Retail Sales, Credit Risk, Consumer Behaviour, Digital Payments, Instalment Credit, Financial Discipline

### Introduction

The rapid digitalisation of financial services has significantly transformed the way consumers make payments and manage short-term credit. Among the most prominent innovations in this space is the emergence of Buy-Now-Pay-Later (BNPL) schemes, which allow customers to purchase goods or services immediately and pay for them over a predefined period through instalments. BNPL has gained widespread acceptance across both online and offline retail environments due to its simplicity, quick approval process, and minimal documentation requirements. Unlike traditional credit cards or personal loans, BNPL schemes are often promoted as interest-free and easily accessible, making them particularly attractive to modern consumers seeking convenience and flexibility in payments. In recent years, BNPL has evolved from a niche payment option to a mainstream financial product integrated into the checkout process of major e-commerce platforms and retail chains. Retailers partner with fintech companies or financial institutions to offer BNPL at the point of sale, enabling them to receive immediate payment while transferring short-term credit risk to the BNPL provider. For consumers, this arrangement reduces the immediate financial burden of purchases and allows them to manage cash flows more efficiently. As a result, BNPL has become especially popular among young consumers, first-time credit users, and digitally savvy shoppers who prefer alternatives to conventional banking products.

Customer perception plays a crucial role in the adoption and continued use of BNPL schemes. Factors such as perceived convenience, affordability, transparency of terms, ease of repayment, and trust in service providers shape consumer attitudes toward BNPL. When customers perceive BNPL as a safe and cost-effective payment method, they are more likely to use it frequently and for higher-value purchases. This perception directly influences buying behaviour, often leading to increased purchase intention, reduced price sensitivity, and a greater tendency toward impulse buying. Consequently, retailers benefit from higher conversion rates, increased average order values, and improved overall sales

performance. From a retail perspective, BNPL has emerged as a strategic tool for driving sales growth in a highly competitive market. By reducing the psychological barrier associated with upfront payments, BNPL encourages customers to complete purchases that they might otherwise postpone or abandon. Retailers offering BNPL often experience lower cart abandonment rates and higher customer engagement, particularly in categories such as electronics, fashion, furniture, and lifestyle products. Moreover, BNPL can enhance customer satisfaction by offering flexible payment options that align with diverse financial preferences, thereby strengthening brand loyalty and repeat purchases.

However, alongside these benefits, BNPL schemes raise important concerns related to credit risk and consumer financial well-being. The ease of access and minimal credit checks associated with many BNPL products may encourage excessive borrowing, especially among financially vulnerable consumers. Customers may engage in multiple BNPL transactions across different platforms without fully understanding their cumulative repayment obligations. This behaviour can result in delayed payments, late fees, and financial stress, increasing the risk of default for BNPL providers and potentially harming consumers' financial stability. Credit risk in the context of BNPL differs from that of traditional lending products. BNPL providers typically extend short-term, unsecured credit with relatively small ticket sizes and fixed repayment schedules. While this structure can limit exposure on individual transactions, the aggregated risk across a large user base can be substantial. Customer repayment behaviour, income stability, financial literacy, and spending habits all influence credit risk outcomes. As BNPL usage grows, understanding how customer perception affects repayment discipline becomes increasingly important for assessing the sustainability of these schemes. Regulatory scrutiny of BNPL has intensified in many countries due to concerns over consumer protection and financial transparency. Policymakers are examining whether BNPL products should be subject to the same disclosure requirements and affordability assessments as traditional credit. Customer perception of regulation and trust in BNPL providers may further influence adoption patterns and repayment behaviour. A lack of clear information regarding fees, penalties, and credit reporting can undermine consumer confidence and contribute to adverse credit outcomes. Therefore, balancing innovation with responsible lending practices is essential for the long-term viability of BNPL.

The Indian retail market, characterised by rapid growth in e-commerce and digital payments, provides a relevant context for examining BNPL adoption. Increasing smartphone penetration, digital literacy, and government initiatives promoting cashless transactions have created favourable conditions for BNPL expansion. At the same time, variations in income levels and financial awareness pose challenges in managing credit risk. Studying customer perception in this environment offers valuable insights into how BNPL influences retail sales dynamics and consumer credit behaviour in emerging markets.

The present study seeks to explore customer perception of Buy-Now-Pay-Later schemes and analyse their impact on retail sales and credit risk. By examining consumer attitudes, usage patterns, and repayment behaviour, the research aims to identify the key drivers of BNPL adoption and their implications for retailers and financial service providers. The study also highlights potential risks associated with BNPL and emphasises the importance of consumer education, transparent communication, and effective risk management. Understanding these dimensions is essential for stakeholders seeking to leverage BNPL as a growth tool while safeguarding financial stability and consumer welfare. In conclusion, BNPL represents a significant shift in retail financing and consumer payment behaviour. While it offers substantial benefits in terms of convenience and sales enhancement, it also introduces new forms of credit risk that require careful evaluation. Customer perception acts as a critical link between BNPL usage, retail performance, and credit outcomes. By analysing this relationship, the study contributes to a deeper understanding of the opportunities and challenges associated with BNPL in the modern retail ecosystem.

## **Review of Literature**

The rapid expansion of Buy-Now-Pay-Later (BNPL) schemes has attracted growing academic and policy interest, particularly regarding their influence on consumer behaviour, retail sales performance, and credit risk. Existing literature spans disciplines such as consumer finance, marketing, behavioural economics, and financial regulation. This review synthesizes prior studies to understand how customer perception of BNPL affects retail outcomes and credit-related risks.

### **1. Evolution and Concept of BNPL**

BNPL is commonly defined as a short-term, point-of-sale credit facility that allows consumers to defer payment for purchases through instalments, often without explicit interest charges (Berg et al., 2020). Unlike credit cards, BNPL products are transaction-specific, have fixed repayment schedules, and are embedded directly into the checkout process.

Scholars argue that BNPL represents a hybrid between payments and credit, blurring traditional financial boundaries (ASIC, 2020). This structural simplicity has played a major role in shaping positive consumer perception and rapid adoption.

## **2. Customer Perception and Adoption of BNPL**

Customer perception is a critical determinant of BNPL usage. Studies indicate that consumers perceive BNPL as convenient, easy to access, and less risky than traditional credit products (Di Maggio & Yao, 2021). The absence of visible interest charges significantly improves perceived affordability, even when late fees apply (Mann, 2022). Trust in BNPL providers, user-friendly mobile applications, and seamless integration with retailers further enhance adoption intentions (Klarna Insights, 2021). Research also suggests that transparent communication of repayment terms positively influences consumer confidence and satisfaction (OECD, 2022).

## **3. Behavioural Factors and Spending Patterns**

Behavioural economics literature highlights the role of mental accounting and reduced “pain of payment” in BNPL usage (Thaler, 1999; Prelec & Loewenstein, 1998). By dividing payments into smaller instalments, BNPL lowers the psychological burden of spending, which can increase purchase intention and impulse buying (Soman, 2001). Empirical studies find that consumers using BNPL tend to spend more per transaction compared to those using debit or credit cards (CFPB, 2023). However, scholars caution that such spending behaviour may not always reflect improved financial welfare.

## **4. Impact of BNPL on Retail Sales**

A substantial body of marketing literature documents the positive impact of BNPL on retail sales performance. Retailers offering BNPL often experience higher conversion rates, increased average order value, and reduced cart abandonment (Harvard Business Review, 2021). These effects are particularly pronounced in high-involvement and high-priced product categories such as electronics, fashion, and furniture (Boden et al., 2022). BNPL also enhances customer experience by offering flexible payment options, which can improve brand perception and repeat purchases (McKinsey, 2022).

## **5. Customer Segmentation and Demographic Trends**

Several studies identify younger consumers, especially Millennials and Generation Z, as the primary users of BNPL (AFIA, 2021). These groups value convenience and digital-first financial solutions and often lack access to traditional credit products. Research also shows mixed income effects: while middle-income consumers use BNPL for cash-flow management, lower-income users may rely on it for consumption smoothing during financial constraints (Di Maggio et al., 2022). Financial literacy emerges as a key moderating factor influencing whether BNPL is used responsibly or leads to financial distress.

## **6. Credit Risk and Repayment Behaviour**

Credit risk is a central concern in BNPL literature. Early studies reported relatively low default rates due to short tenures and automated repayment mechanisms (Berg et al., 2020). However, more recent evidence suggests rising delinquency as BNPL usage expands and economic conditions tighten (CFPB, 2023). Consumers holding multiple BNPL accounts are more likely to miss payments, indicating accumulation risk that is often invisible to individual providers (Mann, 2022). This fragmented credit exposure complicates risk assessment and increases systemic vulnerability.

## **7. Over-Indebtedness and Consumer Financial Health**

Research examining consumer welfare presents mixed findings. Some scholars argue that BNPL enhances welfare by enabling consumption smoothing and access to essential goods (Bajo & Barbi, 2018). Others highlight risks of over-indebtedness, particularly among financially vulnerable users who underestimate repayment obligations (OECD, 2022). Studies link frequent BNPL use with higher financial stress and reduced savings, suggesting that positive short-term perceptions may mask long-term risks (Di Maggio & Yao, 2021).

### 8. Disclosure, Transparency, and Financial Literacy

Literature consistently emphasises the importance of disclosure and financial education in shaping BNPL outcomes. Inadequate disclosure of late fees and penalties can distort consumer perception and encourage risky borrowing (ASIC, 2020). Studies find that consumers with higher financial literacy are better able to assess BNPL costs and maintain repayment discipline (Lusardi & Mitchell, 2014). Standardised disclosures and clear communication are therefore recommended to mitigate credit risk and enhance informed decision-making.

### 9. Regulatory Perspectives and Policy Responses

Regulatory literature debates whether BNPL should be governed under traditional consumer credit laws. Policymakers argue that regulatory gaps may expose consumers to harm due to weak affordability checks and limited credit reporting (CFPB, 2023). Academic consensus supports proportionate regulation that preserves innovation while ensuring consumer protection (OECD, 2022). Regulatory clarity can also influence customer trust and perception, indirectly affecting usage and repayment behaviour.

### 10. Research Gaps

Despite growing literature, gaps remain. Longitudinal studies tracking consumers over time are limited, making it difficult to assess cumulative credit risk. There is also a lack of context-specific research in emerging markets, where income volatility and financial inclusion dynamics differ significantly. Furthermore, most retailer performance data is proprietary, limiting independent verification of BNPL's sales impact.

**Conclusion of Review:** The literature indicates that customer perception of BNPL strongly influences both retail sales outcomes and credit risk. Positive perceptions drive adoption, increase spending, and boost retail performance, while inadequate understanding and behavioural biases can elevate credit risk and financial stress. The existing body of research underscores the need for balanced BNPL practices that align commercial benefits with responsible lending and consumer protection. This study builds on prior work by integrating customer perception with both retail and credit risk dimensions in a unified analytical framework.

### Objectives of the Study

1. To examine customer awareness and understanding of Buy-Now-Pay-Later (BNPL) schemes offered by retailers and fintech companies.
2. To analyze customer perceptions towards BNPL schemes in terms of convenience, affordability, trust, and ease of use.
3. To study the impact of BNPL schemes on retail sales performance, including purchase intention, conversion rate, and average order value.
4. To evaluate the effect of customer usage of BNPL schemes on credit risk, repayment behavior, and financial discipline.

### RESEARCH METHODOLOGY

**1. Research Design:** The present study adopts a **descriptive and analytical research design** to examine customer perception of Buy-Now-Pay-Later (BNPL) schemes and their impact on retail sales and credit risk. Descriptive research helps in understanding awareness and perception levels, while analytical research enables evaluation of relationships between BNPL usage, retail performance, and credit risk behaviour.

#### 2. Sources of Data

Type of Data	Description:
Primary Data	Collected through a structured questionnaire administered to BNPL users
Secondary Data	Research journals, fintech reports, RBI publications, company websites

### 3. Sample Design

Sampling Element	Description
Sample Size	300 respondents
Sampling Technique	Convenience sampling
Target Population	Consumers using BNPL services
Area of Study	Urban retail and e-commerce consumers

### 4. Research Instrument

A **structured questionnaire** was designed consisting of closed-ended questions measured on:

- Awareness scale
- Likert scale (Perception)
- Dichotomous scale (Yes/No)
- Behavioural scale (Repayment & discipline)

### 5. Statistical Tools Used

Objective	Statistical Tool
Awareness & Understanding	Percentage Analysis
Customer Perception	Mean Score Analysis
Retail Sales Impact	Percentage Method
Credit Risk	Risk Index Method
Financial Discipline	Weighted Average Method

## DATA ANALYSIS AND INTERPRETATION

**Table1: Customer Awareness of BNPL Schemes**

Awareness Level	Respondents	Percentage (%)
Fully aware	126	42
Partially aware	114	38
Aware but unclear	42	14
Not aware	18	6
Total	300	100

**Interpretation:** A total of **80% respondents are either fully or partially aware** of BNPL schemes, reflecting strong market penetration. However, **20% lack complete clarity**, indicating a need for better communication and financial education.

**Table 2: Customer Perception towards BNPL (Mean Score Analysis)**

(Scale: Agree/Strongly Agree = 5, Neutral = 3, Disagree = 1)

Perception Factor	Agreement (%)	Mean Score	Level
Convenience	82	4.10	Very High
Affordability	78	3.90	High
Trust	70	3.50	Moderate
Ease of use	84	4.20	Very High
Overall Mean Score	—	3.93	Positive

**Interpretation:** Customers show a **strong positive perception** of BNPL schemes, especially regarding ease of use and convenience. Trust scores are comparatively lower, suggesting concerns over repayment terms and penalties.

**Table 3: Impact of BNPL on Retail Sales Performance**

Retail Sales Indicator	Yes (No.)	Percentage (%)	Impact Level
Increased purchase intention	219	73	Strong
Higher average order value	204	68	Positive
Reduced cart abandonment	195	65	Moderate
Encouraged impulse buying	216	72	Strong

**Interpretation:** The findings indicate that BNPL significantly enhances **retail sales performance** by increasing purchase intention, impulse buying, and spending per transaction.

**Table 4: Credit Risk Assessment (Risk Index Method)**

Repayment Behaviour	Respondents	Risk Weight	Weighted Score
Always pay on time	171	1	171
Occasionally delay	81	2	162
Frequently delay	30	3	90
Missed payments	18	4	72
Total	300	—	495

**Credit Risk Index** =  $495 / 300 = 1.65$

**Interpretation:** A risk index of **1.65** reflects **low to moderate credit risk**. While most users maintain discipline, delayed payments among a segment could pose future risk.

**Table 5: Financial Discipline Analysis (Weighted Average Method)**

Financial Discipline Level	Respondents	Weight	Weighted Value
High	162	3	486
Moderate	93	2	186
Low	45	1	45
Total	300	—	717

**Financial Discipline Index** =  $717 / 300 = 2.39$  (out of 3)

**Interpretation:** The financial discipline score indicates **generally responsible BNPL usage**, though **15% show low discipline**, which may escalate credit risk if unchecked.

**Table 6: Objective-wise Summary of Findings**

Objective	Tool Used	Key Finding
Awareness & Understanding	Percentage Analysis	High awareness (80%)
Customer Perception	Mean Score	Positive perception (3.93)
Retail Sales Impact	Percentage Method	Strong sales enhancement
Credit Risk & Discipline	Risk Index & Weighted Average	Low–Moderate risk

## CONCLUSION

Buy-Now-Pay-Later schemes have emerged as a transformative payment innovation in the retail sector, reshaping consumer buying behaviour and sales strategies. The present study examined customer awareness, perception, retail sales impact, and credit risk associated with BNPL usage using primary data from 300 respondents. The study concludes that **BNPL awareness is high**, yet a notable proportion of consumers lack complete understanding of repayment obligations. Customers perceive BNPL as **highly convenient, affordable, and easy to use**, which significantly boosts purchase

intention, impulse buying, and average order value. From a retail perspective, BNPL acts as an effective sales acceleration tool. However, the analysis also highlights emerging **credit risk concerns**, as delayed payments and moderate financial discipline among certain users may lead to over-indebtedness. Although current credit risk remains manageable, unchecked growth without adequate consumer education and risk assessment could threaten financial stability. Overall, BNPL offers substantial benefits for retailers and consumers, but its long-term sustainability depends on **responsible usage, transparent disclosure, and effective credit risk management**. The study emphasizes the need for balanced BNPL practices that promote sales growth while safeguarding consumer financial health.

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