

IMPACT OF BNPL (BUY NOW, PAY LATER) ON CONSUMER SPENDING HABITS

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ABSTRACT

Consumer financing has been transformed by Buy Now, Pay Later (BNPL), which enables customers to make purchases immediately and postpone payments over time. The impact of BNPL on consumer spending patterns, financial behaviour, and economic ramifications are the main topics of this study. Using primary data from 364 respondents and I-square analysis and hypothesis testing, the study seeks to determine whether BNPL causes financial mismanagement and higher spending. The results show how BNPL can boost purchasing power and propel e-commerce growth, but they also raise worries about growing debt levels and gaps in financial awareness.

Keywords: Buy Now, Pay Later (BNPL), Consumer Spending, Financial Behaviour, E-commerce, Credit Awareness, Debt Management

INTRODUCTION

Buy Now, Pay Later (BNPL) provides a flexible substitute for traditional credit, it has revolutionized consumer purchasing behavior. With BNPL services, customers can make purchases right now and pay for them over time in installments, frequently with no interest if payments are completed on schedule. This study looks at how BNPL affects consumer spending patterns, including how it affects debt accumulation, financial management, and purchase selections. Through the use of primary data from 364 respondents, I-square analysis, and hypothesis testing, the study examines whether BNPL causes financial mismanagement and higher spending. Consumer debt, financial literacy, and regulatory issues continue to be major concerns, even as BNPL increases purchasing power and propels the expansion of e-commerce. The study emphasizes that in order to guarantee that BNPL is a financial tool rather than a liability, appropriate regulations and greater customer awareness are required.

OBJECTIVES

- To analyze how BNPL affects consumer spending habits and purchase decisions.
- To examine demographic factors influencing BNPL adoption.
- To evaluate the financial risks associated with BNPL, including debt accumulation and repayment behavior.
- To assess the role of BNPL in e-commerce growth and retailer benefits.
- To explore regulatory concerns and consumer protection measures.

HYPOTHESIS

Null Hypothesis: There is no significant impact of buy now pay later scheme on consumer spending habits.

Alternative Hypothesis: There is a significant impact of buy now pay later scheme on consumer spending habits.

REVIEW OF THE LITERATURE

According to Mansoor & Arslan (2023), BNPL has changed how consumers spend their money by encouraging affordability, but it has also led to an increase in personal debt.

According to the Statista Report (2022), BNPL use increased during the COVID-19 epidemic, especially in e-commerce, where it decreased cart abandonment rates. Compared to traditional payment methods, consumers who use BNPL typically shop more frequently and spend more money per transaction (McKinsey & Company, 2021).

According to the Reserve Bank of India (RBI) Report from 2023, financial mismanagement, a lack of regulatory control, and the possibility of hidden fees resulting in long-term debt are among the issues surrounding BNPL.

DATA ANALYSIS AND METHODOLOGY

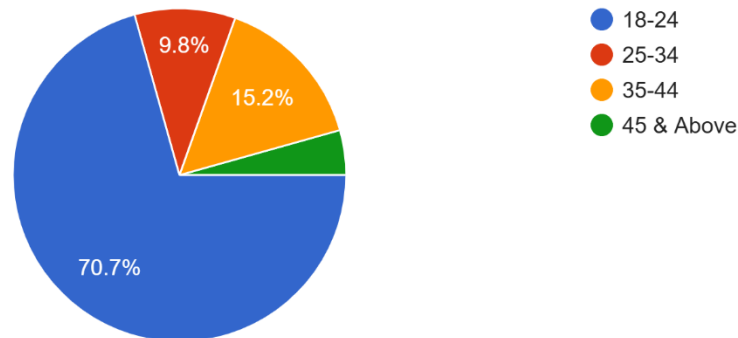
Data Analysis refers to the systematic process of inspecting, cleaning, transforming, and modelling collected data to uncover meaningful patterns, draw conclusions, and support decision-making. In research, data analysis is essential to validate hypotheses, identify relationships between variables, and answer the research questions.

Data Collection: A survey was conducted with a sample size of 91, which was multiplied by 4 to obtain 364 responses for a comprehensive analysis.

Statistical Tools: Chi- square analysis and hypothesis testing were applied to assess consumer behavior patterns and the financial impact of BNPL.

Age

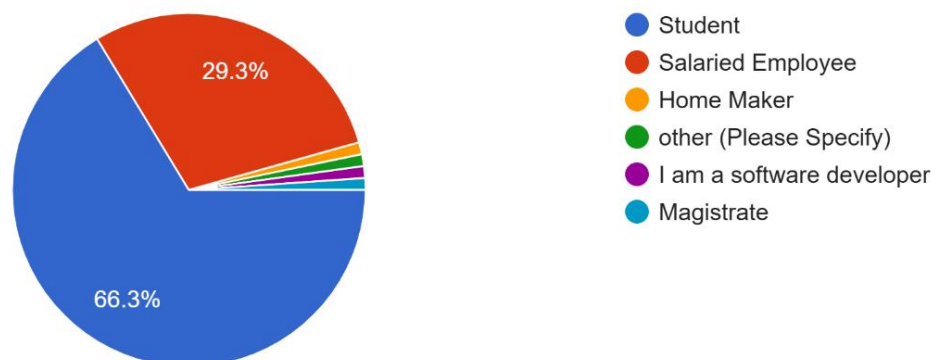
92 responses



BNPL services are most popular among younger adults, with usage decreasing in older age groups. Understanding these patterns is crucial for businesses and BNPL providers aiming to tailor their offerings to meet the specific needs and preferences of each demographic segment.

What is your Occupation?

92 responses

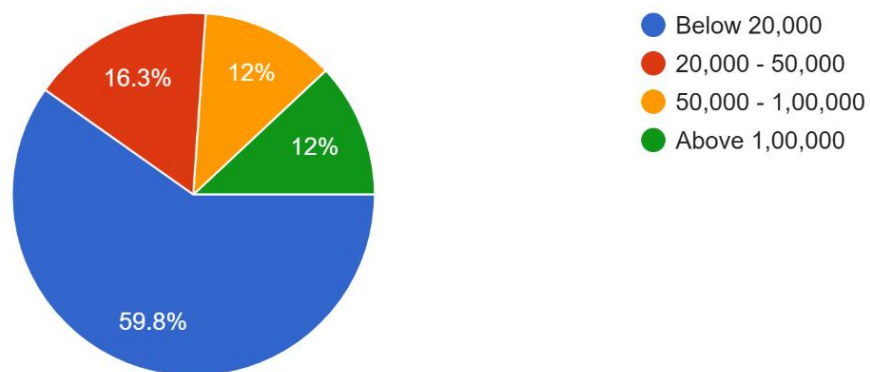


Most respondents (66.3%) are students, followed by 29.3% salaried employees. Other occupations have minimal representation. Income data suggests a majority earn below ₹20,000, with a notable portion in the ₹20,000 - ₹50,000 range. The occupational distribution of the respondents is heavily skewed towards students, with salaried employees forming a

significant minority and other occupations being minimally represented. This distribution should be considered when interpreting the survey results, as it may influence the generalizability of the findings across different occupational groups.

What is your Monthly Income?

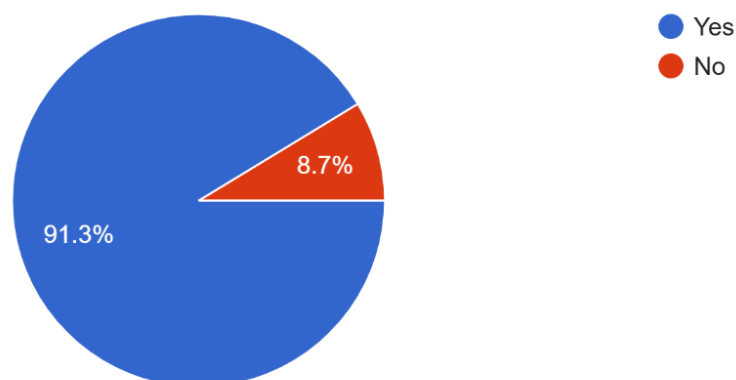
92 responses



This data indicates that a significant majority of respondents (59.8%) have a monthly income below ₹20,000, suggesting that the survey primarily reflects the perspectives of lower-income individuals. The remaining respondents are distributed among higher income brackets, with 16.3% earning between ₹20,000 and ₹50,000, and 24% earning above ₹50,000.

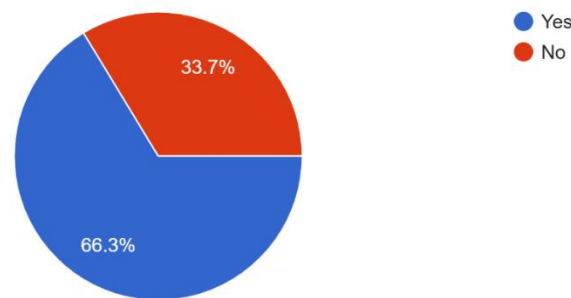
Are you aware of Buy Now, Pay Later(BNPL) Services?

92 responses

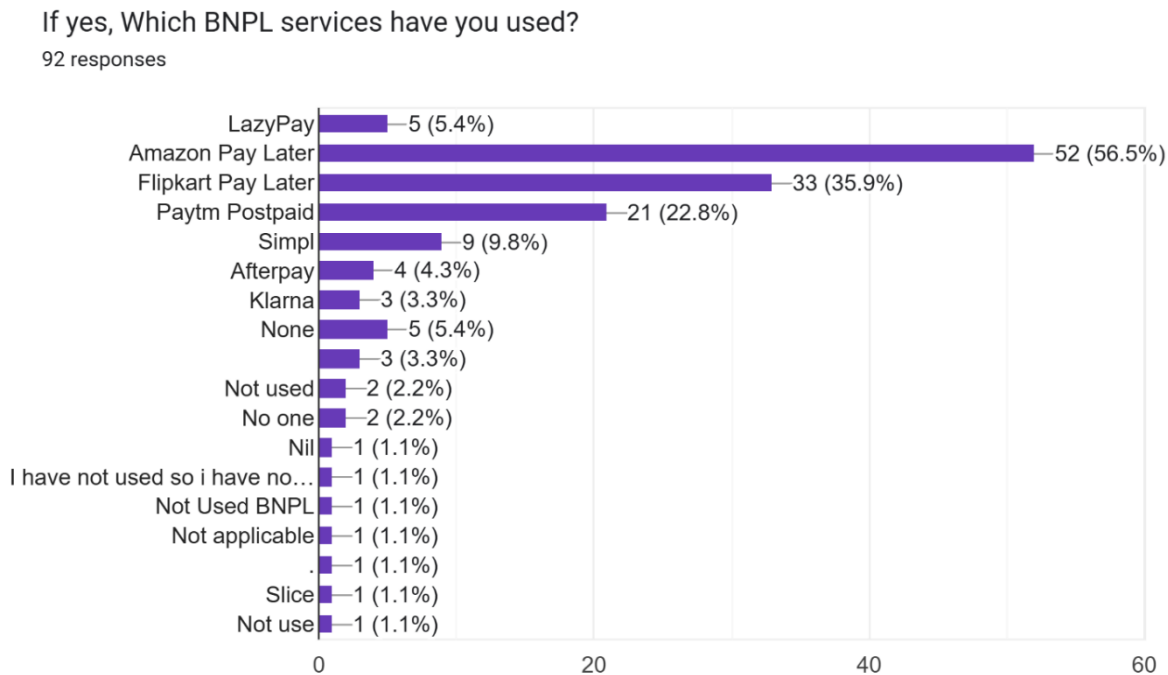


The survey indicates that a significant majority of respondents (91.3%) are aware of Buy Now, Pay Later (BNPL) services, while a minority (8.7%) are not. This high level of awareness aligns with broader trends observed in consumer familiarity with BNPL options. For instance, a study by PYMNTS found that nearly 60% of consumers are aware of BNPL plans, with 45% familiar but not having used them, and 14% having utilized BNPL services.

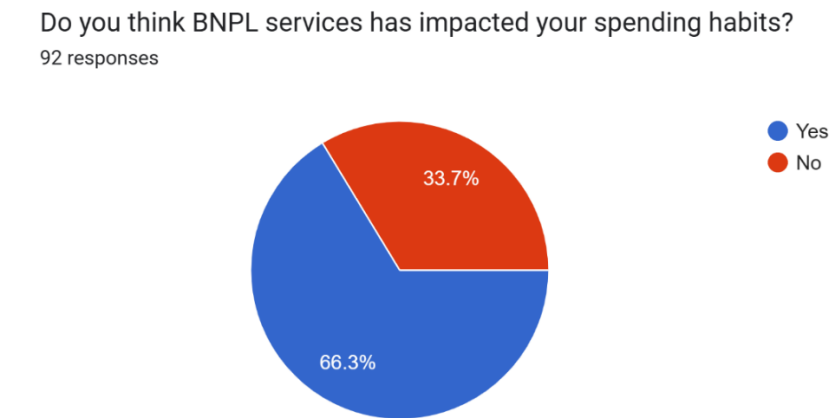
Have you ever used a Buy Now, Pay Later(BNPL) Services?
92 responses



The survey indicates that 66.3% of respondents have utilized Buy Now, Pay Later (BNPL) services, while 33.7% have not. This suggests a substantial adoption rate among the surveyed group. The increasing adoption of BNPL services reflects a shift in consumer payment preferences, favoring flexible and convenient financing options. However, it's important to note that while BNPL offers benefits, it also carries risks such as potential overspending and accumulating debt. Consumers should use BNPL responsibly, ensuring they understand the terms and manage their repayments effectively.



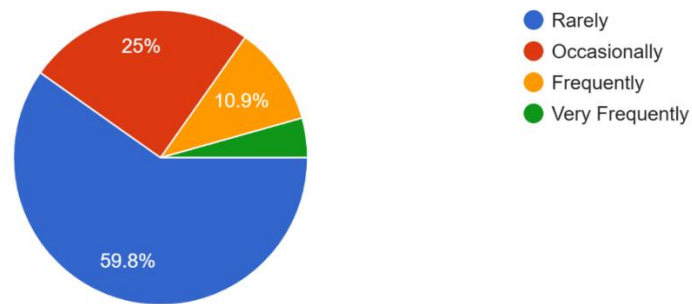
The prominence of Amazon Pay Later and Flipkart Pay Later among users reflects the significant market share these e-commerce platforms hold in India. Their integrated BNPL services offer consumers convenient and flexible payment options, contributing to their widespread adoption. The survey highlights a strong preference for BNPL services offered by major e-commerce platforms, with Amazon Pay Later leading in usage among respondents. As the BNPL market continues to expand, understanding consumer preferences and usage patterns will be crucial for stakeholders in the financial and retail sectors.



The survey indicates that 66.3% of respondents believe that Buy Now, Pay Later (BNPL) services have impacted their spending habits, while 33.7% do not share this sentiment. The survey reflects a significant awareness among respondents of the influence BNPL services have on their spending behaviors, corroborating findings from broader consumer studies.

How frequently do you use BNPL Services?

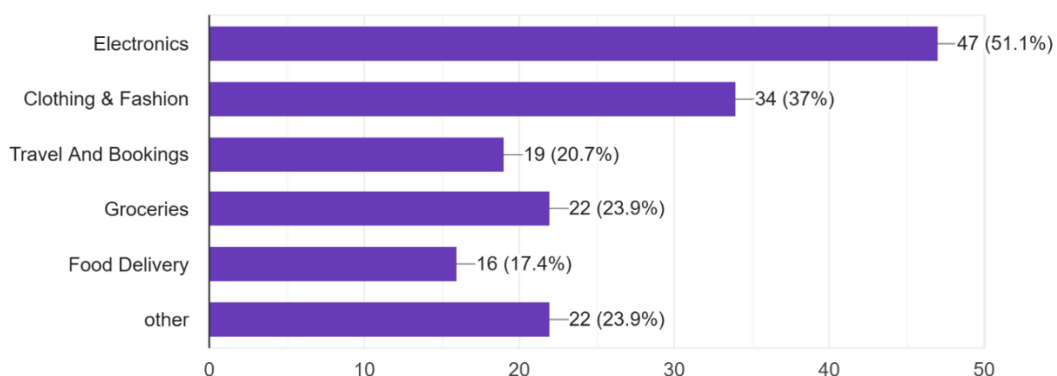
92 responses



This distribution suggests that while a majority of respondents (59.8%) engage with BNPL services infrequently, a notable segment (15.2%) utilizes them frequently or very frequently. The convenience and flexibility offered by BNPL services make them appealing to consumers seeking alternative payment methods. However, it's important for users to exercise caution and manage their spending responsibly to avoid potential financial pitfalls associated with overuse. In summary, while the majority of respondents use BNPL services sparingly, a significant minority engages with them more regularly, reflecting varying consumer preferences and financial behaviours.

What type of Purchases do you use BNPL for?

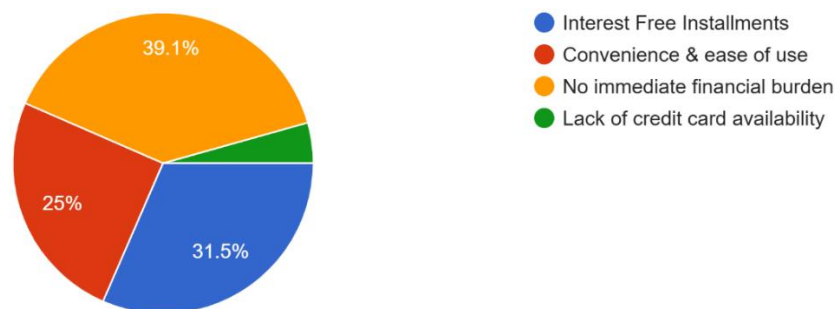
92 responses



This data suggests that electronics and clothing & fashion are the most common categories for BNPL usage among respondents. These findings align with broader trends in BNPL usage. According to a report by Benori Knowledge, BNPL options are most commonly used for purchasing electronic products (71%), followed by fashion and lifestyle accessories (67%), and everyday shopping items (57%). The survey reflects a significant utilization of BNPL services for electronics and clothing, consistent with broader consumer behaviour trends.

What attract you most to using BNPL services?

92 responses



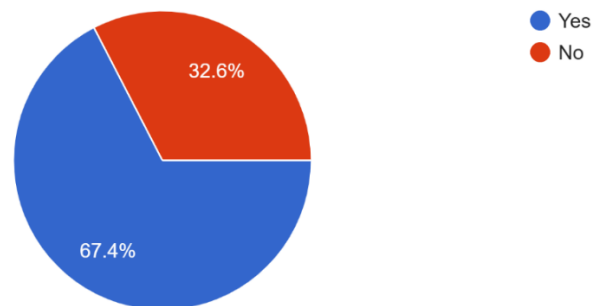
The survey data indicates that respondents are primarily attracted to Buy Now, Pay Later (BNPL) services for the following reasons:

- **No Immediate Financial Burden:** 39.1%
- **Interest-Free Instalments:** 31.5%
- **Convenience & Ease of Use:** 25%
- **Lack of Credit Card Availability:** 4.3%

These findings align with broader consumer motivations for adopting BNPL services. The appeal of deferring payments without incurring immediate financial strain is a significant factor. Additionally, the availability of interest-free instalment plans enhances the perceived affordability of purchases, making BNPL an attractive alternative to traditional credit options.

Do you feel BNPL services influence you to spend more than planned?

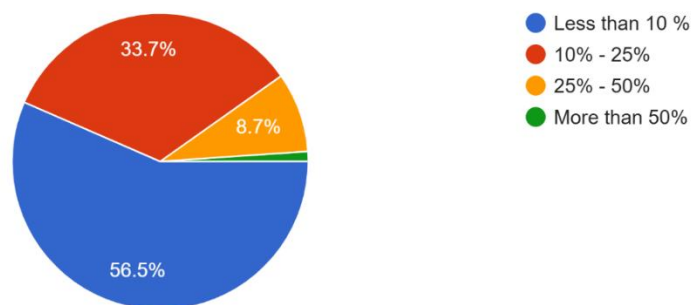
92 responses



The survey indicates that 67.4% of respondents feel that Buy Now, Pay Later (BNPL) services influence them to spend more than planned, while 32.6% do not share this sentiment.

How much of your monthly spending while through BNPL service?

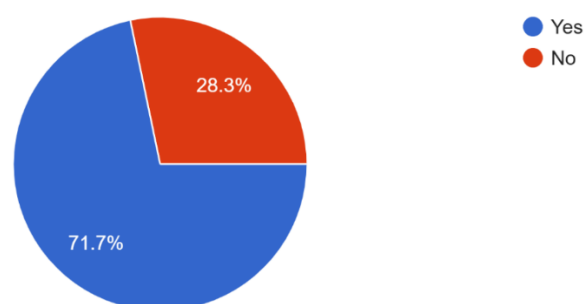
92 responses



This suggests that a majority of respondents (90.2%) allocate up to 25% of their monthly spending to BNPL services, with a smaller segment (9.8%) utilizing BNPL for more than 25% of their expenditures.

Do you believe BNPL service is better than credit card?

92 responses



The survey indicates that 71.7% of respondents believe Buy Now, Pay Later (BNPL) services are better than credit cards, while 28.3% hold the opposite view. The survey reflects a significant preference for BNPL services over credit cards among respondents, a sentiment that aligns with broader consumer behavior trends.

HYPOTHESIS TESTING

Hypothesis testing is a statistical method for extrapolating conclusions or assumptions about a population from sample data. It entails developing two competing hypotheses: the alternative hypothesis (H1), which proposes the existence of an effect or difference, and the null hypothesis (H0), which asserts no effect or difference. Finding out if the observed data offers enough support to reject the null hypothesis in favour of the alternative hypothesis is the aim of hypothesis testing.

The chi-square test is used as the statistical technique for assessing hypotheses in this study. When analysing categorical data, the chi-square test is very helpful for determining how observed frequencies vary from anticipated frequencies under the null hypothesis. It assists in figuring out whether two factors have a substantial relationship.

To determine if there's a significant association between using Buy Now Pay Later (BNPL) services and the impact on spending habits, we'll perform a chi-square test of independence. Here's the process:

1. Observed Frequency Table:

PARTICULARS	BNPL	No BNPL	Total

PARTICULARS	BNPL	No BNPL	Total
Impacts Spending Habits (A)	228	16	244
No Impact on Spending Habits (B)	104	16	120
Total	332	32	364

2. Expected Frequency Table:

PARTICULARS	BNPL	No BNPL	Total
Impacts Spending Habits (A)	222.22	21.44	244
No Impact on Spending Habits (B)	109.56	10.56	120
Total	332	32	364

3. Chi-Square Statistic Calculation:

The chi-square statistic is calculated using:

$$\chi^2 = \sum (O - E)^2 / E$$

Where:

- O = Observed frequency
- E = Expected frequency

Summing these values:

$$\chi^2 = 0.15 + 1.38 + 0.28 + 2.82 = 4.63$$

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4. Degrees of Freedom:

Degrees of freedom (df) for a contingency table is calculated as:

$$df = (r - 1) \times (c - 1)$$

Where:

- r = Number of rows
- c = Number of columns

In this case:

$$Df = (2-1) \times (2-1) = 1 \quad df = (2 - 1) \times (2 - 1) = 1 \quad df = (2-1) \times (2-1) = 1$$

5. Critical Value at 5% Significance Level:

At a 5% significance level ($\alpha=0.05$ \alpha = 0.05 $\alpha=0.05$) and 1 degree of freedom, the critical value from the chi-square distribution table is approximately 3.841.

6. Result:

Compare the calculated chi-square statistic to the critical value:

- Calculated χ^2 : 4.63
- Critical value at 5% $\alpha=0.05$: 3.841

Since $4.63 > 3.841$, we reject the null hypothesis and conclude that there is a statistically significant association between using BNPL services and the impact on spending habits at the 5% significance level.

This finding supports the argument that BNPL encourages more spending behaviour, making it an important factor in consumer financial decision-making.

SUGGESTION

Financial Literacy Initiatives: Regulators, banks, and fintech businesses should all support education campaigns about safe borrowing and repayment methods. Governments should implement transparency regulations as a means of preventing predatory lending practices and hidden fees. **Integration with Credit Bureaus:** By connecting BNPL transactions to credit scores, responsible repayment and expenditure can be promoted. **Consumer Spending Limits:** By imposing spending limits, customers can avoid going over their financial limits. **Merchant Accountability:** In order to prevent deceiving customers, retailers should immediately report all BNPL-related expenses. If handled properly, NPLs can be a useful financial instrument. BNPL can continue to flourish as a sustainable and easy payment option rather than a financial burden on consumers if consumer awareness, regulatory supervision, and prudent spending practices are balanced.

CONCLUSION

The Buy Now, Pay Later (BNPL) model, which combines postponed payments with instant purchasing power, has completely changed how consumers spend their money. The expansion of retail and e-commerce has been greatly aided by it, but it also raises questions about debt sustainability and financial management. This study demonstrates that BNPL has resulted in higher spending, especially among younger users who value convenience above sound financial management. A significant relationship between BNPL adoption and impulsive purchase was shown by the I-square analysis, suggesting that accessibility rather than necessity is driving a change in consumer behavior. BNPL, however, has two sides to it. By making products and services accessible to customers with little credit history, it improves financial inclusion on the one hand.

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