

Understanding Buy Now, Pay Later: Drivers, Demographics, and Financial Implications

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ABSTRACT

In recent times, Buy Now, Pay Later (BNPL) services have experienced explosive growth in usage, with loan volume in the U.S. increasing 970% during the early stages between 2019–2021. This literature review synthesizes research across three interrelated aspects of BNPL loans: the drivers behind BNPL adoption, the demographics of the service’s users, and its financial implications for consumer behavior and well-being. Detailed analysis reveals that BNPL’s appeal comes from financial drivers (liquidity management, credit accessibility, no-interest financing), functional drivers (convenience, ease of use), and subtle psychological drivers (present bias, framing effects, mental accounting). In addition, demographic research demonstrates that BNPL disproportionately draws younger, female, lower-income, and minority consumers who have subprime credit scores. Financial implications research shows that BNPL adoption correlates with increased spending frequency (9%) and amount (10.5%), reduced emergency savings, higher late payment rates (10.5% in 2021), and lowered overall financial well-being. However, the direction of the cause-and-effect relationship remains unclear: whether financially vulnerable consumers self-select into using BNPL as a payment method or whether BNPL usage specifically causes financial harm. This review article identifies crucial research gaps and asserts that current regulations inadequately protect consumers from documented, predictable risks, especially in vulnerable populations.

Keywords: Buy Now Pay Later; BNPL; Consumer Credit; Behavioral Economics; Financial Well-being; Fintech; Payment Methods; Consumer Behavior

INTRODUCTION

Over the past decade, Buy Now, Pay Later (BNPL) services have emerged as one of the most disruptive innovations in consumer finance. BNPL enables

consumers to purchase goods and services immediately while deferring payments through installments. The most common payment plan is “pay-in-four,” in which the consumer repays within four weeks, although longer repayment structures are also available (1). Many providers advertise interest-free plans, distinguishing BNPL from traditional forms of credit such as credit cards or payday loans. BNPL providers present themselves as flexible, low-cost payment options that conveniently fit into the online shopping experience. With major global providers such as Klarna, Afterpay, and Affirm rapidly expanding across markets, BNPL

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has become a mainstream financial tool for millions of consumers worldwide. In fact, the amount of BNPL loans originated in the U.S. increased by 970% from 2019 to 2021 and is projected to continue growing significantly in the years to come (2). The convenience of BNPL's payment structure, combined with its integration into online shopping platforms, has established it as a key component of the digital payments ecosystem. As BNPL becomes increasingly popular, it is increasingly important to understand both the financial motivations and the deeper, underlying factors for its usage. This review investigates the reasons why BNPL is used, the demographics of BNPL users, and how BNPL impacts financial health and spending patterns.

BNPL appeals to consumers through a mix of convenience, cognitive biases, and socioeconomic factors that influence how they use credit. For instance, many consumers are initially drawn to the short-term liquidity that BNPL provides, along with convenience. Compared to credit cards, the barrier of entry for BNPL is lower, providing a quick and easy way to finance purchases. Beyond these surface-level attractions, BNPL usage is influenced by subtler forces that even consumers themselves may not recognize (3). Behavioral economics demonstrates the role of cognitive biases such as present bias, which makes people overly focused on immediate benefits while underestimating future obligations, and framing effects, where the marketing of BNPL as "4 payments of \$15" instead of "one payment of \$60" influences consumers' perceptions of affordability (4, 5). Demographic and socioeconomic factors also play a role, as younger and lower-income consumers are more likely to adopt BNPL due to limited access to traditional forms of credit and a lack of financial literacy (6).

BNPL usage has important consequences for consumer behavior and financial health. Research suggests that BNPL adoption often leads to higher spending and larger basket sizes (5, 7). Over time, these services often lead to a snowball effect. Consumers accumulate more and more BNPL obligations, creating debt that can be

difficult to manage. As another example, Guttman-Kenney *et al.* show that many consumers repay BNPL loans using credit cards, effectively converting interest-free short-term loans into higher-interest revolving debt (8). Unlike credit cards, many BNPL services conduct minimal or no credit checks, making them accessible to individuals who may already be financially constrained. This accessibility, while inclusive, increases the risk of overspending, as consumers can take out multiple BNPL loans across different providers. Research suggests that BNPL use is often associated with less savings and recurring financial difficulties. However, the causality question remains unresolved—do people who are financially irresponsible select into these programs, or do these programs encourage people who are otherwise responsible to use credit irresponsibly? Hayashi and Routh establish strong correlations between BNPL use and financial constraints, but do not definitively determine which direction the causal relationship flows (9). Research in this area is therefore important for consumers, as it shows how BNPL influences purchasing behavior and financial well-being patterns.

Although BNPL has attracted growing attention in both academic and policy discussions, much of the existing literature has focused on specific aspects such as spending increases or repayment patterns. What remains less explored is a literature review that explains not just what type of consumers use BNPL, but why they do so, and what the consequences are on their financial health. The purpose of this paper is to review and synthesize the growing body of research on BNPL, with a focus on three interconnected aspects: (1) the drivers behind consumer adoption, (2) the demographics behind BNPL consumers, and (3) the effects of BNPL on consumer behavior and financial well-being. This contribution is significant as BNPL is still a relatively new service, and its full effects are only beginning to emerge. By addressing an area of growing importance for consumers, this paper not only summarizes current academic findings but also identifies gaps in existing research (Table 1).

Table 1. Summary of BNPL Drivers, User Characteristics, and Financial Implications

Construct	Studies	Key Findings	Research Gaps
Financial Drivers	6, 9, 10, 11, 12	BNPL is used to manage short-term liquidity constraints and access interest-free credit easily, appealing to consumers with low savings or less access to credit.	Limited evidence linking financial drivers to repayment outcomes. Few studies analyze whether BNPL substitutes or complements other credit.

Continued Table 1. Summary of BNPL Drivers, User Characteristics, and Financial Implications

Construct	Studies	Key Findings	Research Gaps
Functional Drivers	2, 12, 13	Convenience, checkout integration, instant approval, and app-based tools increase BNPL adoption, including consumers with access to credit cards.	Insufficient research on how the functional design of BNPL connects to digital literacy or consumer protection awareness.
Psychological Drivers	4, 5, 14, 15, 16, 17	BNPL utilizes present bias, mental accounting, and framing effects by reducing the “pain of payment” and focusing on small installments, encouraging higher spending and delayed consideration of costs.	Limited empirical work focuses on testing behavioral mechanisms in real-world BNPL transactions.
Demographic Factors	6, 12, 18, 19, 20, 21, 22, 23	Younger, female, Black, and Hispanic consumers use BNPL at the highest rate. Usage consistently declines with age.	Lack of research on why these differences exist. These effects are also rarely analyzed in the context of regulation, market structure, or design differences.
Socioeconomic Factors	1, 6, 11, 12, 19, 24	Consumers with low income, subprime credit, and low financial literacy use BNPL the most. Lower-income consumers may view BNPL as a necessity, while high-income users cite convenience.	Underexplored link between these characteristics and negative financial outcomes. Which groups face the highest financial strain from BNPL use is also unclear.
Repayment Behavior	2, 6, 8, 9	Late payment is concentrated among financially constrained users. Severe repayment difficulties could occur, such as using credit cards to convert interest-free BNPL into revolving debt.	Lack of studies analyzing long-term default and repayment patterns.
Financial Well-being	1, 2, 5, 7, 9, 25, 27, 28	BNPL is associated with increased spending, reduced emergency savings, increased financial stress, and other financial constraint indicators. Effects persist over multiple quarters.	Causality remains unsolved: whether financially vulnerable consumers self-select into BNPL or whether BNPL usage causes these effects.

DRIVERS OF BNPL USAGE

The growth of Buy Now, Pay Later (BNPL) services can mostly be attributed to a set of financial, functional, and psychological drivers. Financially, BNPL appeals to consumers by offering short-term liquidity and interest-free installment options, presenting itself as a cost-effective alternative to traditional credit. Functionally, its integration into online and in-store checkout systems, combined with minimal barriers to entry, enhances convenience and reduces friction in the purchasing process. Furthermore, psychological biases such as present bias, framing effects, and mental accounting shape consumer decisions. Together, these drivers explain why BNPL has gained rapid popularity in recent years and provide an understanding of both its appeal and its risks. This section examines the current state of research on these three factors driving BNPL adoption.

For each category, this review provides an overview of relevant background, summarizes current findings, and identifies gaps in the existing research.

Financial Drivers

Financial drivers represent the most fundamental motivations for BNPL adoption, emanating from consumers’ actual financial constraints and resource limitations. These drivers reflect situations where consumers turn to BNPL out of necessity rather than preference. These economic motivations are characterized by specific circumstances such as limited liquidity, restricted access to traditional credit products, or the need to minimize the cost of borrowing. For consumers driven primarily by economic factors, BNPL serves as a financial tool that addresses specific constraints, enabling purchases that would otherwise be unaffordable or too burdensome under traditional payment methods.

Consumer credit literature establishes that individuals with limited financial flexibility are more likely to use credit products. The emergence of BNPL services has validated this understanding by providing short-term liquidity and expanding credit access for individuals who may not qualify for traditional lending. However, BNPL's unique design features distinguish it from conventional credit products. While they focus on long-term financing, building credit history, and providing higher consumer protections, BNPL emphasizes convenience, interest-free plans, and low entry barriers.

One of the primary drivers of BNPL adoption is its appeal as a tool for managing liquidity. Consumers often use BNPL to spread out the cost of purchases without the burden of immediate payment, effectively easing short-term budget challenges. BNPL's predetermined repayment schedules may help consumers to budget more effectively for the reason that the biweekly payment structure can better align with payroll cycles. For households facing irregular income or limited savings, the ability to defer payments can provide a sense of financial flexibility. This function aligns with long-standing theories in consumer research that emphasize credit as a mechanism for consumption smoothing in the presence of liquidity constraints (10).

BNPL services take down the barriers to traditional credit access that affect millions of consumers, particularly those with limited credit histories, lower credit scores, or previous credit rejections. Unlike other credit products that use hard credit checks, BNPL providers employ soft credit checks that do not impact consumers' credit scores and do not require credit history. These checks often incorporate alternative data sources such as shopping profiles to assess creditworthiness (11). This alternative underwriting approach enables BNPL services to extend credit to consumers who might be denied credit cards or personal loans.

In addition to accessibility, affordability is an important motivation. Whereas credit card loans may be interest-free for only one month, given that cardholders pay the previously billed amount in full, BNPL loans are typically interest-free and will rarely carry other fees if the repayment period is three months or shorter. This cost structure makes BNPL particularly attractive compared to credit cards, which can carry annual percentage rates over 20%, personal loans with origination fees and interest charges, or alternative credit services like payday loans with significantly higher costs. The appeal of BNPL's zero-cost financing extends to include cost-conscious individuals who have access to traditional

credit but prefer to minimize borrowing expenses. However, this cost advantage comes with risks since it depends entirely on timely payments, and consumers who miss BNPL payments or make them late may incur substantial costs from penalties and fees. Despite these risks, by providing interest-free credit, BNPL increases its appeal to a wide range of consumers and differentiates itself from many other forms of lending (12).

The research in this area remains limited in several ways. First, while surveys and usage statistics document consumers' stated motivations for BNPL use—such as spreading payments, avoiding interest, or accessibility—few studies test whether those stated motives actually predict outcomes, such as frequency of BNPL use or repayment challenges. In other words, the link between attitude and behavior is underexplored. Additionally, current research rarely investigates how BNPL compares to other available financial tools. While credit cards and payday loans have been widely studied as mechanisms for short-term liquidity, BNPL remains underexplored in a comparative context. Without this, it is unclear whether BNPL substitutes for or complements existing credit products. Future research could address these limitations by designing studies that link motivations to observed behaviors and by examining BNPL adoption decisions within the context of consumers' full range of credit product choices.

Functional Drivers

Functional drivers encompass the practical benefits and advantages that make BNPL services more appealing than alternative payment methods, independent of financial necessity. These motivations center on user experience, convenience, and efficiency rather than economic constraints. Consumers influenced by functional drivers may have the financial capacity to use other payment methods but choose BNPL because of its advantages. This section covers factors that enhance the overall transaction experience and reduce friction in the purchasing process.

BNPL providers primarily use two business models: the merchant-partner model, in which BNPL providers partner with merchants to offer their services on the merchant's website, app, or in-store checkout interface; and the app-driven model, in which the consumer shops on the BNPL provider's app and receives a virtual card with its own credit limit (2). Each model has specific features that consumers are attracted to. In the merchant-partner model, BNPL is featured on checkout pages alongside credit cards and other payment options, with

the checkout process remaining embedded within the merchant's website without requiring consumers to exit to third-party pages, allowing for instantaneous credit decisions. This partnership structure is perceived as inherently trustworthy and legitimate through association with established retailers. Consumers encountering BNPL options on familiar merchant websites benefit from transferred credibility—if a trusted retailer offers a payment method, consumers may reasonably infer that the BNPL payment provider has been vetted and approved. In the app-driven model, consumers receive virtual cards with preset credit limits and can browse a shopping catalog that allows users to easily access dozens of products and brands, with the BNPL provider's app serving as the consumer acquisition point rather than individual merchant websites (2). BNPL apps typically integrate spending trackers, payment schedules, and real-time notifications that provide consumers with greater visibility into their credit obligations compared to traditional credit products. Additionally, by consolidating the entire shopping process into a single application, including discovery, browsing, and transaction capabilities, BNPL apps reduce the friction involved with shopping online.

Compared to credit cards, BNPL is more convenient for the reason that applying for and managing a credit card can be a more involved process compared to the instant approval of many BNPL services. The physical act of payment itself has also been streamlined: rather than retrieving a credit card, manually entering card numbers, expiration dates, CVV codes, and billing addresses, BNPL users can complete purchases with biometric authentication or single-tap confirmation using previously saved credentials. Consumers who have access to both credit cards and BNPL may pick the latter for its convenience. According to survey data, 88% of BNPL users cited preference or convenience as a reason for using the service, and 54% specifically mentioned not wanting to use a credit card (12).

Studies have applied the Technology Acceptance Model (TAM) to understand BNPL adoption, focusing on perceived usefulness and perceived ease of use as the primary determinants. A comprehensive study by Jagadhita and Tjhin examining BNPL adoption in Indonesia through the Technology Acceptance Model found that perceived usefulness, perceived ease of use, and trust all have positive effects on intention to use BNPL services (13). This finding aligns with TAM's proposition that users are more likely to adopt technologies they perceive as useful and easy to use. The

research revealed that trust serves as a partial mediating variable between perceived usefulness and perceived ease of use. The study finds that when consumers believe BNPL provides benefits such as spending control and transaction convenience, and when they see the system easy to navigate, their intention to adopt these services increases significantly.

However, there is limited research assessing how these perceived functional benefits interact with individual characteristics such as financial literacy or digital familiarity. For instance, consumers with high digital familiarity may adopt BNPL primarily due to technological convenience, whereas less digitally confident users may be more influenced by other factors. Future studies could address this by conducting experimental or survey-based comparisons of specific BNPL design features, helping identify which features are most influential. This would not only clarify the theoretical understanding of digital credit adoption but also inform the responsible design of future fintech products.

Psychological Drivers

Psychological drivers are the cognitive and behavioral factors that influence how consumers perceive, process, and respond to BNPL. Grounded in behavioral economics, these motivations arise from biases such as present bias, mental accounting, and framing effects. BNPL services are designed in ways that tap into these tendencies. For example, BNPL providers break purchases into smaller installments and reduce the immediate "pain of payment". By doing so, BNPL affects consumer perceptions of affordability and payment management, offering a useful lens for understanding the reasons for its widespread use.

Mental accounting is a cognitive bias in which individuals treat money differently depending on its intended use, source, or category, rather than considering it as part of their overall financial resources (14). In rational economic terms, money should be fungible, as a dollar is a dollar regardless of where it comes from or what it's designated for. However, people consistently disregard this principle by mentally categorizing their money into separate "accounts" with different rules. In the context of BNPL, this allows consumers to perceive installment payments as separate from their regular bills or everyday expenses, creating a mental partition that makes purchases feel more manageable or justified. As a result, consumers may commit to purchases they would otherwise consider unaffordable or unnecessary.

Research has further demonstrated that BNPL

services exploit present bias, a tendency in which individuals place disproportionately higher value on immediate rewards over future costs (15). People's preferences shift depending on when costs and benefits occur. Specifically, people tend to undervalue outcomes that occur in the future while overvaluing outcomes available immediately. This leads to time inconsistency, creating a false perception of affordability (16). In practice, this means that when consumers see an item available via BNPL, they focus on the immediate gratification of receiving the product and undervalue the delayed cost of the installments. By delaying the time between purchase and payment, BNPL encourages higher spending behavior.

BNPL services utilize framing effects to influence consumer decision-making by presenting specific information in order to minimize perceived financial burden. The framing effect is the principle that humans' choices are influenced by the way they are described through different wordings, settings, and situations (17). Objectively equivalent options can lead to different choices depending purely on presentation. BNPL providers take advantage of this by emphasizing small payment amounts spread across a period of time rather than total purchase prices. For instance, a \$60 purchase framed as "4 payments of \$15" appears more manageable than the same transaction presented as a \$60 commitment, even though the actual amount remains identical (5). Consumers tend to focus on the smaller individual payments rather than the total purchase amount.

BNPL USER CHARACTERISTICS

Demographic factors such as age, gender, and race or ethnicity provide insight into the population segments that are most engaged with BNPL. At the same time, socioeconomic factors, including income, credit score, education, and financial literacy, shape the conditions under which consumers turn to BNPL. Taken together, these characteristics help build a profile of BNPL users. This section reviews the literature across demographic and socioeconomic aspects, synthesizing key trends and highlighting unanswered questions about which groups are most drawn to BNPL and why these patterns emerge.

Demographic Factors

Many studies show that age significantly influences BNPL usage, with younger consumers consistently exhibiting higher rates of BNPL adoption compared to

older groups, a pattern that appears across international contexts. Federal Reserve data from the United States show that Millennials and Gen Z are the primary users of BNPL, with usage rates declining with age (12). This pattern has also been documented in other nations; for example, research in New Zealand found that BNPL demand is higher among younger individuals (18). In Poland, Waliszewski *et al.* report the same relationship between age and BNPL adoption, with age being a statistically significant factor in adoption (19). In a broader context, Cornelli *et al.* observed that the majority of BNPL users across 12 countries are under the age of 35, highlighting the prevalence of BNPL among younger demographics (6). This trend may be explained by the younger generation's preference for BNPL as an alternative to traditional credit. Younger consumers are typically more digitally fluent and thus more comfortable with financial technologies. At the same time, many young adults face limited access to traditional credit due to shorter credit histories or lower incomes.

Gender has also emerged as a relevant demographic factor in BNPL adoption. Larrimore *et al.* found that women are more likely than men to use BNPL services (12). A feminist perspective on fintech argues that BNPL disproportionately targets women through fashion, beauty, and make-up marketing, embedding these services within categories where women are primary consumers (20). The relationship between gender and debt concern in BNPL usage presents seemingly contradictory findings. Blue *et al.* found that young Australian women (aged 18-25) carried significantly higher BNPL debt than their male counterparts (\$376 vs \$192 average), yet reported being less concerned about this debt (21). This finding appears to contradict broader consumer debt research by Dunn and Mirzaie, who found that women exhibited approximately 30% higher debt stress scores than men across all consumer debt types, despite carrying less total debt (22). However, these conflicting findings may reflect different stages in the debt accumulation timeline. Blue *et al.*'s sample of young BNPL users may represent an early stage where effective marketing has normalized debt and reduced perceived risk. The lower concern among young women despite higher debt levels could indicate successful efforts by BNPL providers to hide the potential downsides of BNPL products. The nature of these findings stresses the need for longitudinal research examining how BNPL debt concern evolves as users age and experience financial consequences.

Additionally, research indicates race and ethnicity differences in BNPL usage patterns that both reflect

and potentially reinforce existing structural inequalities in consumer credit. Studies have found that Black and Hispanic consumers use BNPL services at higher rates than other races. For instance, in 2023, Federal Reserve data indicated that approximately one-fourth of Black and Hispanic women used BNPL services, more than double the usage rate among White women at 11 percent and Asian women at 8 percent (12). Additionally, the CFPB's 2023 Making Ends Meet Survey found that 26 percent of Black consumers and 24 percent of Hispanic consumers used BNPL compared to 16 percent of White consumers (11). The survey also found that these disparities persist even after controlling for other factors, with multivariate regression analyses indicating that being Black or Hispanic remains positively associated with BNPL usage independent of other explanatory variables like income, age, education, and credit score. Compared to Whites, Blacks and Hispanics have heightened financial vulnerability (23). This may explain why there is increased usage among Black and Hispanic consumers. BNPL's features, including its delayed payment structure, interest-free aspect, and accessibility, are therefore more appealing to Black and Hispanic populations. The intersection of race and BNPL usage thus creates a troubling paradox where these products simultaneously provide access to credit for populations systematically excluded from traditional credit options, while potentially exposing these already financially vulnerable populations to new forms of debt accumulation and financial risk.

Socioeconomic Factors

Research reveals a complex relationship between household income and BNPL adoption that challenges basic assumptions about the service primarily being a necessity-driven credit option for low-income consumers. Consumer Financial Protection Bureau survey data indicate that BNPL use was most prevalent among consumers with annual household incomes between \$20,001 and \$50,000, whereas the lowest usage rates were observed among those earning above \$200,000 annually (11). However, the relationship is not linear; consumers in the lowest income bracket—below \$20,000 annually—demonstrated lower BNPL usage than those in the \$20,001-\$50,000 range, suggesting that factors such as approval rates, general disposable income for consumption, or varying marketing exposure may hold the very poorest households from BNPL usage (11). Federal Reserve data corroborates this pattern, showing that adults with family incomes of \$100,000 or

more were less likely to use BNPL than middle-income consumers, though notably, 9 to 10 percent of consumers earning above \$100,000 still utilized BNPL services (12). Additionally, a study found that people with lower income are more likely to use BNPL than credit cards, and higher-income users are more likely to use BNPL for more expensive purchases (1). This rate of usage among higher-income consumers who presumably have ready access to traditional credit products suggests that BNPL's appeal extends to include functional motivations. However, Waliszewski *et al.* found that higher per capita household net income positively correlates with BNPL usage, a pattern opposite to U.S.-based findings (19). The researchers attribute this to the link between income and education levels in Poland's emerging BNPL market. This difference highlights how BNPL's relationship with income may be mediated by market maturity, regulatory environments, credit market structures, and cultural attitudes toward consumer credit. In established e-commerce markets like the current United States, BNPL may serve primarily as a liquidity management tool for middle-income consumers experiencing cash flow issues, whereas in newer markets, higher-income consumers with greater digital literacy and credit experience may be the first to adopt BNPL. When BNPL first became prevalent in the U.S. in 2017–2019, early adopters tended to have higher incomes, but by 2021, the low to middle-income groups were the most likely to use BNPL (1). Importantly, motivations for BNPL use differ across income levels as well, with 70 percent of users earning under \$25,000 reporting that BNPL was “the only way they could afford” their purchase, compared to only 32 percent of those earning \$100,000 or more, who were instead significantly more likely to cite avoiding interest charges as their primary motivation (12). This difference in stated motivations reveals that household incomes impact not only BNPL usage rates but also why they use it.

Moving on, credit scores have been shown to be one of the most significant predictors of BNPL adoption. The CFPB found in 2023 that BNPL users have substantially lower average credit scores than non-users: BNPL borrowers typically fall within the subprime range of 580–669, whereas non-users had scores averaging in the near-prime category of 670–739 (11). This credit score difference predated BNPL's popularity surge in the United States beginning in 2019, suggesting that pre-existing creditworthiness differences drive adoption rather than the opposite, which is BNPL usage causing lower credit scores. Credit scores show a similar trend to

income: consumers with lower scores were more likely to report that BNPL was the “only way they could afford” a purchase (12). The same study also found that the same trend of higher BNPL usage among lower credit score consumers was present in each age cohort.

The relationship between education or financial literacy and BNPL usage is complex and situational. Logistic regression analyses of Polish consumers found that higher levels of education increase the likelihood of BNPL adoption (19). International evidence presents contrasting findings, though. A cross-country analysis by the Bank for International Settlements (BIS) examining 25 countries found that BNPL users are typically characterized by “less education” compared to traditional credit product users, with survey data from the United States specifically showing that BNPL usage decreases with educational attainment (6). However, Lusardi and Mitchell found that financial literacy in consumers is not guaranteed by education (24). They also show that the younger and tech-savvy individuals are generally less financially literate than older generations. Thus, the challenge lies in distinguishing between education—which may affect BNPL through income or digital literacy—and financial literacy, which appears to reduce BNPL’s perceived attractiveness by enabling more accurate assessment of its costs and risks.

Most studies define who uses BNPL and the average BNPL user profile, but very few examine which groups are most likely to experience negative financial outcomes, such as late payments or debt accumulation. Future studies should link demographic data with behavioral outcomes. This would allow policymakers to identify which groups face the highest financial strain from BNPL and develop evidence-based regulation.

FINANCIAL IMPLICATIONS

It is important to understand the financial implications of BNPL services. While BNPL offers consumers greater flexibility and short-term liquidity, research suggests it may also alter money management behaviors and outcomes. This section examines two primary areas of impact: repayment behavior patterns that detail how consumers manage BNPL obligations, and the broader implications for financial health, including spending patterns, debt accumulation, and financial stress.

Repayment Behavior

Despite the relatively short repayment periods typical of BNPL products, late payment rates reveal significant

challenges in meeting payment obligations. Research from the CFPB documented that 10.5% of borrowers were charged at least one late fee in 2021, up from 7.9% in 2020 (2). The fees vary considerably across providers, ranging from flat fees of \$7–10 per missed payment to percentage-based charges. For users making smaller purchases, these fees can take up a significant percentage of the transaction value, possibly requiring costs that exceed those of credit cards. Research indicates that late fees tend to concentrate in a subset of users who miss multiple payments (2), suggesting that fee accumulation disproportionately affects consumers already experiencing difficulty with money management. The BIS cross-country analysis found that BNPL delinquency rates and defaults exceed those of traditional consumer credit products, with BNPL users demonstrating higher rates of payment failures across several credit products (6). Additionally, research from the Federal Reserve Bank of Kansas City reports that BNPL users with late payments are more likely to have a higher number of financial constraint indicators (9). Their findings also suggest that BNPL users who make late payments are highly correlated with experiencing financial vulnerability or distress, implying that BNPL comes with the risk of overspending.

Guttman-Kenney *et al.* documented a concerning pattern where consumers use credit card debt to pay for BNPL obligations, effectively converting zero-interest BNPL loans into interest-bearing credit card debt (8). Their analysis of UK credit card transaction data revealed that charging BNPL installments to credit cards is most prevalent among younger consumers and those living in more economically deprived areas. When consumers carry credit card balances used for BNPL repayment, they incur interest charges that negate any benefit from the interest-free structure, suggesting that some users take out BNPL loans while lacking sufficient funds to manage these obligations. The CFPB data from 2022 showed that 89% of BNPL loan repayments were made via debit card in 2021, with credit cards accounting for a portion of the remaining payments (2). While this observation may appear small, the practice of using credit to pay for credit represents a warning sign for money management strain among BNPL users.

With many BNPL providers existing across many platforms, consumers can maintain more than one simultaneous installment plan, often across different services. Although consumers can use this flexibility to their advantage, it raises concerns about possible overspending and the development of problematic

habits. The CFPB identifies taking two or more loans from different BNPL providers as a risk to consumers, as they may not be able to repay some or all of them (2). Furthermore, the absence of communication between providers means each BNPL service evaluates creditworthiness by itself, potentially approving loans without considering existing BNPL loans. This creates opportunities for overextension that would be prevented with traditional credit products, where lenders are able to access comprehensive credit reports.

Financial Well-being

Recent research has consistently documented that BNPL availability increases consumer spending, both in terms of purchase frequency and value. Maesen and Ang conducted a difference-in-differences analysis and found that customers adopting BNPL had 8.96% increased purchase incidence and 10.5% higher purchase amount, with effects most pronounced among younger and lower-income customers (5). Similar findings were shown, as BNPL-adopting customers had 6.42% higher online spending, with the same groups being attributed as the drivers of this effect (7). Hayashi and Routh found that 30% of BNPL users spent an amount that exceeded their income for a certain time period compared to 18% of BNPL nonusers (9). Adding on, Di Maggio *et al.* found that BNPL adoption leads to persistent increases in spending over time, not just temporary spikes (1). Their analysis using transaction-level data shows that spending increases continue for months after initial BNPL adoption, suggesting larger changes rather than one-time effects. Apart from just overall spending, BNPL users have been shown to have a higher online impulse buying tendency than nonusers (25). However, this study was done specifically on females aged 18 to 25, and impulsivity is a trait that is affected by both age and gender (26).

The relationship between BNPL usage and savings behavior presents important implications for long-term financial security. Hayashi and Routh found that BNPL users are more likely to face any given financial constraint indicator than nonusers (9). For instance, 51% of BNPL users had no means to cover three months' worth of expenses, while only 28% of non-users had this limitation. Following the same pattern, 45% of users and 26% of nonusers could not cover an emergency expense of \$400 (9). The CFPB recognized a risk that using BNPL at a high rate weakens consumers' ability to fulfill other financial obligations (2). People who repeatedly use BNPL tend to put BNPL loans at the top of their priority,

sacrificing other financial obligations. Additionally, using banking data from more than 10 million U.S. consumers, deHaan *et al.* found that BNPL facilitates overborrowing, owing to the fact that new BNPL users experience rapid increases in bank overdraft charges and credit card interest and fees compared with nonusers. In other words, after adopting BNPL, consumers experience a significant and rapid decline in their financial health compared to similar non-users. Similar to spending increases, these effects persist over multiple quarters, indicating lasting impacts (27). Research from the Australian market determined that BNPL usage was a significant negative predictor of consumers' overall well-being by increasing their current stress around money management and lowering their expected future financial security (28).

There is a gap that lies in the current literature: causality. While the associations between BNPL usage and negative financial outcomes are well-documented, the direction of causality remains unclear. As mentioned in the introduction, it remains unclear whether consumers who are already constrained select into BNPL services or whether BNPL usage itself causes financial deterioration through increased spending and debt accumulation. Hayashi and Routh establish strong correlations between BNPL use and various financial constraint indicators, but do not definitively determine the causal direction (9). Answering this question is important for policy development since it determines whether regulatory intervention should focus on preventing vulnerable populations from accessing BNPL or on redesigning BNPL features in order to promote responsible usage. Future longitudinal studies tracking consumers before and after BNPL adoption or experimental designs that randomly assign BNPL access would provide more definitive evidence.

CONCLUSION

The rise of Buy Now, Pay Later services represents a notable development in consumer credit by strategically offering consumers the ability to divide their purchases into structured, interest-free payments. However, this innovation comes with considerable risks that are not completely understood and regulated. This paper has reviewed the drivers behind the use of BNPL, characterized the demographics of BNPL users, and analyzed the financial implications of these services. The synthesis reveals an elaborate picture: BNPL simultaneously fulfills consumer needs while potentially facilitating financial harm, particularly for already

vulnerable consumer populations.

While this paper covers extensive scholarship on the topic, certain important limitations should be mentioned and assessed. First, for the reason that BNPL is a relatively new service, much of the available literature is recent and still progressing. This limits the ability to analyze long-term financial outcomes such as sustained debt accumulation or credit score effects. Second, the studies reviewed vary in geographic coverage, methodology, and data quality. While some rely on survey data with self-reported measures, others may use transaction-level data from specific providers, making it difficult to draw largely generalizable conclusions. Demographic data rely heavily on consumer self-reporting of BNPL usage, and since most BNPL loans do not appear on credit bureau reports, verification is mostly impossible. Some consumers may underreport usage due to social desirability bias or if viewing the service negatively, affecting demographic estimates. Furthermore, BNPL research focuses on developed countries with established BNPL markets—such as the United States, Australia, and the United Kingdom—where regulatory environments and consumer credit access differ substantially from those in emerging markets. Findings from these settings may therefore not translate to regions such as Latin America and Africa, and vice versa. In addition to developing countries, other underrepresented populations, such as older consumers or rural populations, may have differing motivations for and consequences of BNPL adoption. These limitations stress the need for more diverse, longitudinal, and/or cross-country studies that ideally combine multiple types of data in order to build a fuller and more inclusive understanding of BNPL's impact.

For consumers, the suggestion is clear: BNPL services should be approached with caution. Despite the fact that they may satisfy liquidity needs in specific circumstances, the evidence suggests they frequently facilitate overspending and financial unhealthiness. Financially vulnerable consumers should be particularly cautious, as the evidence suggests that these populations experience the most negative consequences. For those with substantial financial resources, BNPL could serve as a genuine, useful, and convenient payment tool.

Looking from a regulatory and policy standpoint, the present situation is inadequate. BNPL providers typically conduct minimal credit underwriting, do not report to credit bureaus (except in extreme cases of delinquency), and face few consumer protection requirements. These conditions leave gaps and make it more complicated for

consumers to navigate the service with full clarity than it needs to be. The absence of BNPL-specific regulations has allowed for a dramatic increase in its popularity, unfortunately, at the cost of consumer safety. Addressing these inconsistencies through more specific guidelines and standardized disclosure practices would help align BNPL, a relatively new product, with established expectations for consumer credit. Over time, as BNPL continues to become more popular, the difference between effective and neglectful regulation may determine the fate of BNPL. Through novel research, disclosure of risks, and meaningful policy intervention, BNPL's benefits can be utilized while minimizing potential harm to consumers.

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CONFLICT OF INTEREST

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