

# Easy Money, Hidden Costs: A Detailed Look at How 'Buy Now, Pay Later' is Shaping the Financial Lives of Young Indians

RAJ KUMAR

(Assistant Professor)

Gangasheel Mahavidhyalya, Nawabganj Bareilly 262407 (Affiliated to MJPRU Bareilly)

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## Abstract

Buy Now, Pay Later (BNPL) services are rapidly transforming the spending habits of Indian youth. Platforms like Simpl, LazyPay, and Afterpay offer seemingly interest-free installments, making immediate purchases highly attractive. This paper thoroughly examines how BNPL influences young people's spending, money management, and debt accumulation. While convenient, these services are designed to encourage frequent use, often by minimizing the perceived cost of spending and incorporating gamified features that drive higher consumption. However, easy access to credit carries significant risks. Many users engage in "debt stacking" by borrowing from multiple BNPL apps simultaneously, leading to hidden debt problems. Missed payments can severely damage a young person's CIBIL score, impacting future financial opportunities. This research also addresses the Reserve Bank of India's (RBI) regulatory efforts in this burgeoning sector. Finally, the paper offers clear recommendations for the government, BNPL companies, and educational institutions to promote responsible use of these financial tools, enabling young Indians to leverage innovation without falling into long-term debt traps.

**Keywords:** Buy Now Pay Later (BNPL), Young Spenders, Spending Habits, Financial Technology (FinTech), Consumer Debt, Financial Education, India, CIBIL Score, Reserve Bank of India (RBI)

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## I. Introduction:

### The Rise of BNPL and Its Implications

In contemporary India, Buy Now, Pay Later (BNPL) has emerged as a pervasive payment trend, particularly popular among teenagers and young adults. Services offered by platforms such as Simpl, LazyPay, and Afterpay enable users to acquire goods immediately and defer payment through small, manageable installments. The allure of "interest-free" payments further amplifies their appeal.

This research paper meticulously investigates the transformative impact of BNPL on young people's spending patterns, financial management, and susceptibility to debt. Beyond mere convenience, these services are strategically designed to foster recurrent usage. They effectively decouple the act of spending from the immediate "pain of paying" and frequently integrate gamified elements that incentivize increased consumption.

Nevertheless, this facilitated access to credit is fraught with considerable risks. A prevalent issue is "debt stacking," where users accumulate debt across multiple BNPL applications, often leading to unforeseen financial distress. Furthermore, defaulting on payments can significantly impair a young individual's credit score, thereby jeopardizing future financial prospects.

This paper also reviews the regulatory measures undertaken by the Reserve Bank of India (RBI) to govern this rapidly expanding sector. Conclusively, it provides actionable recommendations for governmental bodies, BNPL providers, and educational institutions. The overarching objective is to foster the responsible adoption of these financial instruments, empowering young individuals to benefit from technological innovation while mitigating the risks of long-term debt entrapment.

### Research Questions:

- \* How is BNPL influencing the daily financial habits of Indian youth?
  - \* To what extent are young users aware of the risks (like debt stacking and credit score damage) associated with BNPL?
  - \* What psychological and technological strategies do BNPL apps use to encourage repeat borrowing?
  - \* What policy or educational changes can reduce financial risk while maintaining access to digital credit?
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## **II. Literature Review: Psychological Foundations and Market Trends**

The rapid proliferation of BNPL services in India is underpinned by a profound understanding of human behavioral economics, alongside India's significant youth demographic and widespread adoption of digital payments. This section reviews key academic concepts and market insights that illuminate the BNPL phenomenon.

Prelec & Loewenstein (1998) introduced the seminal concept of the "pain of paying," which is crucial for understanding overspending. This discomfort, traditionally associated with cash transactions, is significantly reduced by credit mechanisms. Soman & Cheema (2004) further demonstrated that segmenting payments into smaller, deferred installments effectively diminishes spending inhibition, making purchases more appealing. BNPL leverages this psychological principle by breaking down large sums into seemingly negligible periodic payments, thereby minimizing the perceived financial burden.

The Reserve Bank of India's National Strategy for Financial Education 2020–2025 highlights a growing disparity between digital adoption and financial literacy, particularly among the youth. While young Indians are digitally proficient, their understanding of fundamental financial concepts such as interest, credit scores, and debt implications often lags. This gap creates fertile ground for BNPL services, which simplify the borrowing process, potentially bypassing traditional financial prudence.

KPMG (2023) identifies BNPL as one of India's fastest-growing FinTech segments, underscoring its significant market presence. Despite this accelerated growth, comprehensive academic research into the specific behavioral effects of BNPL on young Indian users remains limited.

This highlights a critical void that the current study aims to address, providing deeper insights into the socio-economic ramifications of this evolving financial landscape.

### **The Mechanics of Persuasion: Behavioral Psychology in BNPL**

The pervasive success of BNPL services stems not merely from their convenience but from their sophisticated integration of psychological principles, intuitive design, and digital behavioral patterns. These applications are engineered to render borrowing effortless, secure, and even enjoyable.

#### ***Removing the "Pain of Paying"***

The concept of the "pain of paying" describes the inherent discomfort associated with parting with money, as felt when physically handling cash for a purchase. Credit cards mitigated this discomfort by substituting physical currency with a swift swipe. BNPL services further amplify this effect by enabling payment deferral and segmentation into smaller units, virtually eliminating the immediate "pain."

Instead of focusing on the full cost of an item, such as a ₹3,500 jacket, a user's cognitive attention is redirected to the significantly smaller ₹875 installment. This psychological reframing increases the likelihood of impulse purchases that might otherwise be foregone. Research consistently indicates that when individuals do not fully experience the financial impact of a purchase, they tend to overspend unconsciously.

#### ***The Widening Financial Literacy Gap***

Today's youth are inherently tech-savvy, proficient in navigating apps, smartphones, and social media. However, technological fluency does not equate to a comprehensive understanding of financial principles, interest accrual, or credit mechanisms. A recent RBI survey revealed persistently low levels of financial literacy, particularly among adolescents and young adults.

Historically, borrowing involved a deliberate process through banks, necessitating forms and incurring delays, which provided a natural period for reflection. BNPL services eliminate this friction, enabling instant credit access with just a few taps. The critical issue is that many young users do not fully grasp the long-term consequences, such as the detrimental impact of missed payments on credit scores or the insidious accumulation of debt.

#### ***Gamification: Transforming Borrowing into Play***

BNPL applications are deliberately designed to diverge from the traditional aesthetic of financial instruments. They adopt a gamified approach, characterized by colorful interfaces, rapid interactions, and immediate gratification. This strategic use of gamification aims to foster repeat engagement and loyalty.

##### ***Key gamification elements include:***

- \* **User Levels:** New users typically begin at a "Bronze" tier with a modest credit limit. Successful, timely repayments lead to promotion to "Silver," accompanied by an increased limit, celebrated with visually engaging graphics and auditory cues.

- \* **Badges & Rewards:** Timely payments might earn points, while purchases in specific categories could unlock "Fashionista" badges. Referral programs also offer points, further incentivizing engagement.

\* **Illusion of Progress:** These reward systems create a perception of achievement and advancement. However, this "progress" primarily translates to increased access to debt. The system is meticulously crafted to cultivate habit and loyalty, encouraging perpetual borrowing.

In essence, while BNPL services present themselves as simple and user-friendly, their underlying architecture is intricately designed to promote spending and borrowing, often obscuring the potential long-term financial repercussions for users.

### **III. Research Methodology**

This paper synthesizes existing, authoritative information to construct a comprehensive understanding of BNPL's growth and its impact on Indian consumers. The methodology focused on integrating diverse sources—official reports, academic literature, and media analyses—to delineate both the advantages and inherent risks of this novel payment modality.

The research was conducted through the following systematic approach:

\* **Expert Reports:** Market analyses and trend reports from reputable financial research firms were critically examined to trace the trajectory of BNPL within India's FinTech sector.

\* **RBI Guidelines:** Official documentation, including circulars, press releases, and policy frameworks from the Reserve Bank of India, were meticulously reviewed to ascertain the regulatory landscape governing digital lending.

\* **Media Coverage:** In-depth articles and investigative reports from trusted national newspapers and financial magazines were analyzed to capture the real-world implications of BNPL on everyday users.

\* **Academic Research:** Theories from behavioral economics and consumer psychology were applied to elucidate the efficacy of BNPL in influencing consumer behavior, particularly its propensity to induce overspending and debt.

By integrating these multifaceted sources, this paper provides a robust, evidence-based understanding of BNPL's role and ramifications within the Indian financial context.

#### **Findings: The Dual Impact of BNPL**

BNPL is fundamentally altering how young Indians perceive money, credit, and consumption. Its effects are multifaceted, presenting both advantageous opportunities and significant pitfalls, contingent on its judicious use.

##### ***The Good: Bridging Financial Gaps***

For many, BNPL serves as a transformative financial enabler. Consider Priya, a diligent student from a small town who secures an internship in Bengaluru. Her immediate requirement is a laptop for remote work, but her family cannot afford the ₹40,000 upfront cost. By utilizing a BNPL service, she acquires the laptop and repays the amount in six monthly installments from her internship stipend.

In this instance, BNPL transcends the mere purchase of a luxury item; it functions as a vital tool, facilitating a significant step forward in her career by providing timely access to a crucial *resource*.

##### ***The Bad: Fostering Overspending***

Conversely, numerous instances demonstrate how BNPL contributes to unnecessary spending. These platforms are deliberately engineered to encourage rapid decision-making. They employ terms like "freedom" and "flexibility" to imbue borrowing with an aura of coolness and effortlessness.

The application interfaces are typically sleek and expeditious, devoid of explicit warnings or cautionary pauses that might prompt critical financial consideration. Users can transition from Browse to purchasing within seconds, often without a moment's hesitation regarding the true cost. The outcome is often a tendency to acquire more than one's actual financial capacity permits.

##### ***The Hidden Dangers: Insidious Debt Accumulation***

The most insidious risk is the silent accumulation of debt. Take Rohan, a 22-year-old embarking on his first job in Delhi:

\* He uses Simpl for Uber rides and food deliveries: ₹3,000/month.

\* He uses Afterpay for sneakers: ₹1,500/month.

\* He uses Amazon Pay Later for gaming gear: ₹1,000/month.

\* His total monthly BNPL dues amount to ₹5,500.

One month, his motorcycle breaks down, requiring ₹4,000 for repairs. He finds himself unable to cover both the repair costs and his BNPL obligations, leading to a missed installment.

This triggers a cascade of adverse consequences:

\* He incurs a late fee, followed by interest charged on the outstanding balance.

\* His BNPL account is frozen.

\* He receives a barrage of automated calls, emails, and messages.

\* The psychological burden intensifies.

Eventually, he manages to settle the outstanding amount, but this leaves a negative mark on his CIBIL score. Years later, at age 28, when he and his wife apply for a home loan, the bank discovers the old BNPL default on his credit report. Despite having saved sufficiently for the down payment, his loan application is denied. What began as a seemingly trivial purchase for a video game at 22 ultimately thwarts his aspirations of homeownership at 28. This illustrates the profound, long-term ramifications that BNPL misuse can unleash. In summary, while BNPL can be a beneficial financial instrument when wielded prudently, a lack of awareness and financial discipline can subtly transform short-term convenience into protracted financial distress.

#### **IV. Recommendations: A Collaborative Approach to Responsible BNPL Use**

Addressing the complexities introduced by BNPL necessitates a concerted effort involving regulators, industry players, educational institutions, and families. The following outlines a practical and comprehensive plan of action:

##### ***For the Government and Reserve Bank of India (Regulators)***

- \* **Mandate Clear Warning Labels:** Akin to health warnings on tobacco products, BNPL options should conspicuously display robust financial disclaimers. For example:

"This is a loan. Failure to make timely payments may result in additional charges and damage to your credit score (CIBIL), potentially affecting your future loan eligibility."

- \* **Implement Cooling-Off Periods for Significant Purchases:** For transactions exceeding ₹5,000, institute a mandatory 24-hour delay before purchase finalization. This provides users with a crucial window for reflection, mitigating impulsive decisions.

- \* **Strengthen Centralized Credit Checks:** Prior to approving any new BNPL loan, companies must be obligated to consult a centralized credit information system to ascertain a user's existing BNPL obligations. This measure is critical in preventing individuals from over-leveraging across multiple applications.

##### ***For BNPL Companies (The Industry)***

- \* **Promote Responsible Spending, Not Increased Spending:** Shift the focus from incentivizing higher borrowing to rewarding judicious financial behavior. For instance, offer cashback or loyalty points for early repayments.

- \* **Introduce "Smart Breaks" and Nudges:** If a user attempts to make an excessive number of purchases within a short timeframe, the application should trigger a pop-up alert, such as:

"You already have 3 active payments this month. Adding this will increase your monthly bill to

₹X. Are you sure you wish to continue?"

- \* **Offer Flexible Repayment Options:** In cases where users face difficulties in timely repayment, provide accessible options to transition to a longer repayment schedule (with a fair interest rate) as an alternative to punitive late fees and negative credit reporting.

##### ***For Schools, Colleges, and Families (Education & Society)***

- \* **Integrate Practical Financial Literacy into Curricula:** Introduce modules on digital finance, covering topics like UPI, BNPL, traditional loans, and CIBIL scores, into the Class 10–12 curriculum. Utilize relatable, real-world examples to enhance comprehension.

- \* **Launch Public Awareness Campaigns:** The government, in collaboration with influencers, should initiate widespread social media campaigns promoting financial hygiene. Disseminate concise, impactful messages such as:

"Track your BNPL spending."

"Avoid borrowing for daily necessities like food." "Safeguard your credit score—it matters for your future!"

Through the synergistic efforts of regulators setting robust frameworks, companies adopting ethical business practices, and society fostering greater financial awareness, India's youth can truly benefit from financial innovation without succumbing to debilitating debt traps.

#### **V. Conclusion**

Buy Now, Pay Later (BNPL) epitomizes the characteristics of the modern financial landscape: swift, convenient, and technologically driven. It holds genuine potential to empower individuals, particularly young or first-time borrowers, by democratizing access to credit that was historically difficult to obtain. When utilized judiciously, BNPL can serve as a valuable instrument for personal growth and economic opportunity.

However, in its current manifestation within India, BNPL frequently exploits psychological biases and a prevailing deficit in financial awareness. What initially appears as a straightforward, interest-free option can subtly evolve into significant debt, considerable stress, and a compromised financial future.

The optimal solution is not outright prohibition but rather a concerted effort to enhance the safety and transparency of BNPL services. This necessitates a multi-pronged approach:

- \* The Reserve Bank of India must enforce stronger, more comprehensive regulatory frameworks.

\* BNPL companies must adopt and adhere to more ethical and transparent business practices.

\* Educational institutions and families must prioritize and deliver robust financial education to young people.

Ultimately, true financial freedom is not predicated on the ability to acquire anything instantaneously. It emanates from a profound understanding of one's genuine affordability and the conscious choice to make fiscally prudent decisions today that will safeguard one's financial well-being tomorrow.

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