

# Navigating the Buy Now, Pay Later Landscape in India: Balancing Convenience and Responsibility

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## Abstract

The advancement of technology has transformed the atmosphere of the global financial services sector. Financial technology, commonly known as Fintech, is widely adopted globally, including in India. The adoption of Fintech in the consumer credit landscape is no exception. The Buy Now Pay Later (BNPL) scheme is one example of the latest Fintech innovation gaining popularity amongst consumers. BNPL scheme falls under the category of non-banking credit services providing financial services to a broader segment of consumers, especially those without access to traditional banking services. The increase in consumers opting for the BNPL scheme is due to economic vulnerability and less rigorous requirements and procedures. Despite gaining popularity among consumers, the scheme poses some legal issues in its implementation. These legal issues may lead to a legal risk to vulnerable consumers, especially in fear of unfair practices and absence of standard protection of consumers. This research paper provides a comprehensive analysis of the legal issues surrounding BNPL services in India, examining relevant laws, regulations, and judicial precedents. This paper employs qualitative methods to analyse relevant legal references such as legislation, guidelines, journal articles, and other authoritative and reliable references related to the topic. This research applies content analysis to derive the findings related to the topic. The findings of this research conclude that the BNPL scheme is currently unregulated. However, the government through the Ministry of Finance and other existing regulators has initiated the development of a legal and regulatory framework for regulating the BNPL scheme in India.

**Keywords:** Legal, Non-Banking Credit Services, BNPL, India

## 1. Introduction

The advancement of technology has shifted the paradigm of the financial services sector globally. With the wave of the industrial revolution, the medium of financial services available to consumers is open to more than the conventional methods. Besides traditional banking financial services, financial services are also now offered by non-banking financial institutions or non-banking credit providers/services. (BNPL) is a solution for point-of-sale financing that has grown increasingly popular in recent years, particularly among the younger generations. (Saif S Al-Sowaidi & W Faour, 2022)

BNPL solutions emerged in the early 2010s to address the pain points around financing namely, complexity and credit cards with high fees and APRs.

The BNPL market expanded by a huge 569% Year on year in 2020 while it grew by 637% Y-O-Y in 2022 (Arha & Jufri, 2020) BNPL has been growing for about 2-3 years, further accelerated by covid -19 (Jain, n.d.) Non-banking credit providers and services refer to institutions other than traditional banking financial institutions. The segment of non-banking credit providers and services is vast.

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services are also now offered by non-banking financial institutions or non-banking credit providers and services. Non-banking credit providers/ services refer to other than traditional banking financial institutions. The segment of non-banking credit providers/services is vast. According to global payments report 2023 by world pay from FIS ,BNPL's global e-commerce transactions value is projected to grow to 16% CAGR from 2022-2026

The scope of non-banking credit providers and services was said to be inde Non-mers are open to more than conventional methods. finite to catalyse the evolution of the non-banking credit provider/services segment. The unclear definition of the non-banking credit provider/services segment enables the growth of the segment of non-banking credit provider/services. Examples of non-banking credit providers/services segment are money lending companies, hire-purchase companies, factoring companies, leasing companies, and the Buy Now Pay Later (BNPL) scheme. BNPL scheme is one of many creations of Fintech applying the convenience of technology such as the Internet, communication, automated information processes and other innovations to elevate the financial services experience.

In the modern era, digital communication technologies have become integral part of billions of people's lives, and the COVID-19 pandemic significantly impacted consumer behaviour, leading to increased engagement in online shopping, particularly among young people . Rapidly changing environment due to pandemic leads toward increasing of consumer engaging in purchasing online, gave rise to several online payment schemes, including Buy Now, Pay Later (BNPL). BNPL is a payment method that allows consumers to make purchases and defer payment to a later date, usually in instalments over a period. The surge in online shopping has given rise to BNPL options, which have gained popularity due to their convenience and affordability compared to traditional BNPL scheme is one of many creations of Fintech applying the convenience of technology such as the Internet, communication, automated information processes and other innovations to elevate the financial services experience

#### **Reasons for Consumers Opting for Buy Now and Pay later are :**

1. To make purchases that otherwise wouldn't have fit in the budget
2. To avoid using credit Card or UPI payment
3. To postpone payment until the product is received
4. Don't want to provide credit card details and make online payment
5. Don't trust online products hence doesn't want to make the payment upfront.

#### **2. Problem Statement:**

The legal aspects of non-banking credit providers/services, including the BNPL scheme, are in a grey area as the BNPL scheme is a newly developed industry. The fast development of BNPL has forced this segment to be in a legal vacuum. The legal context of the BNPL scheme as of 2023 in India is uncertain. BNPL scheme is considered a legal arbitrage where its services are not subject to a rigid framework compared to other financial services. The unregulated BNPL scheme under the present legal framework in India raises concerns about vulnerable consumers in dire need of financial services. BNPL scheme has become very popular and expands financial services for those in the gig economy, informal industries, and those without access to traditional banking institutions

**3. Purpose of Research/Study** This research aims to analyse the legal issues of the BNPL scheme in India. However, to explore the BNPL scheme from the legal perspective, it is pertinent to comprehend the concept of the BNPL scheme, advantages and disadvantages of BNPL services. This research will then examine selected legal issues related to the BNPL scheme in India.

**Research Methodology:** This paper employs qualitative methods to analyse relevant legal references such as legislations, guidelines, journal articles, and other authoritative and reliable references related to the topic. This research applies content analysis to derive the findings related to the topic.

**OVERVIEW:**

One of the fintech subcategories that uses technological advancements to improve BNPL credit providers' financial services activity is the BNPL scheme. The BNPL scheme is not a wholly original concept. The BNPL scheme's core component, the credit element, is structured in a way that makes it more enticing for the current market segment to be able to easily and quickly obtain at the touch of their fingertips.

This led to a notable rise in the use of the BNPL scheme in some jurisdictions, where it became a popular means of financial access for customers. Several jurisdictions, including the United States, the United Kingdom, Australia, Singapore, and European nations like Sweden, Germany, and Norway, have been using the BNPL scheme more frequently

**How does BNPL offerings work**

One can pay overtime and still afford the things they want to buy today thanks to the fundamental principle of BNPL service. Depending on the size of the transaction, the credit period for BNPL services varies from 30 days to 36 months. Likewise, the credit limit is contingent upon the lender; for example,

Another BNPL lender, Zest Money, offers up to a personalised limit of Rs 60,000. Flipkart provides a smooth checkout process for up to Rs 10,000. According to Gaurav Hinduja, MD and co-founder of Capital Float, "BNPL is becoming more and more popular because it gives customers a seamless shopping experience." BNPL, being a fully digital solution, expedites the checkout process with just one click. In order to utilize BNPL services, the buyer must register.

**How is BNPL different from credit cards**

**Low-cost and transparent pricing structure:** Because many of the offers are subsidized by brands to ensure that the customer receives the best value of the offering, BNPL typically uses an open and inexpensive pricing model. "BNPL is transparent, unlike credit cards that are meant to deceive the customer with hidden charges and exorbitant interest rates," says Lizzie Chapman, CEO and co-founder of Zest Money. The client is fully aware of the amount they will repay

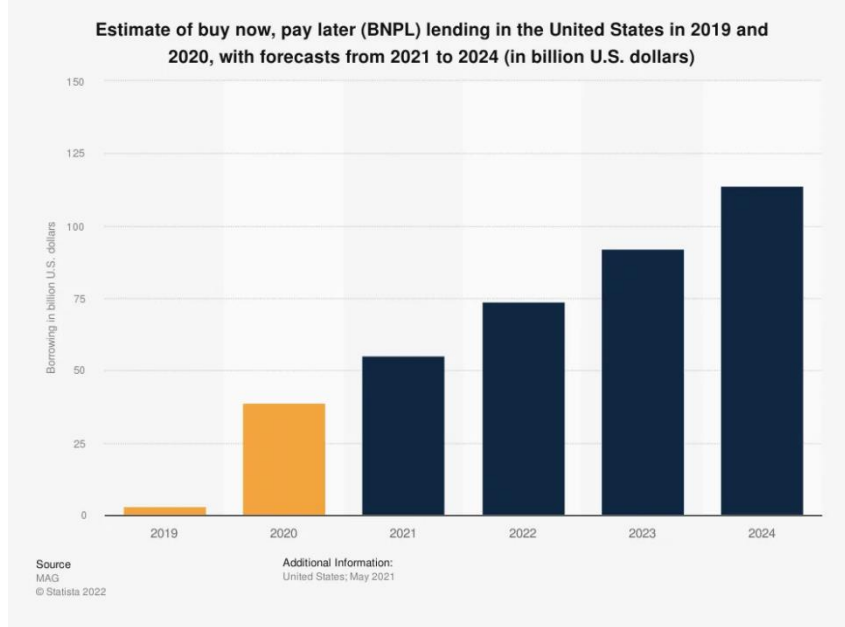
**Instantaneous, fully digital sign-up process:** Anyone sitting anywhere in the nation can sign up and use the service. Conversely, credit cards need weeks and a ton of paperwork. One can begin transacting and get instant approval with digital KYC.

**More accessible:** Experts argue that credit cards are best suited for individuals with high credit scores, residents of large cities, and salaried staff. In India, there are only 30 million credit card users. "BNPL by nature is designed for a much bigger market, including new credit customers or people with insufficient credit history," says Chapman of ZestMoney. To approve these customers, the majority of BNPL players employ a proprietary model and alternative data. Indians are also using credit cards before BNPL.

**Parties/Stakeholders of BNPL Scheme.** There are three (3) parties involved in a BNPL scheme. They are (1) Consumers; (2) Merchants; and (3) BNPL Credit Providers.

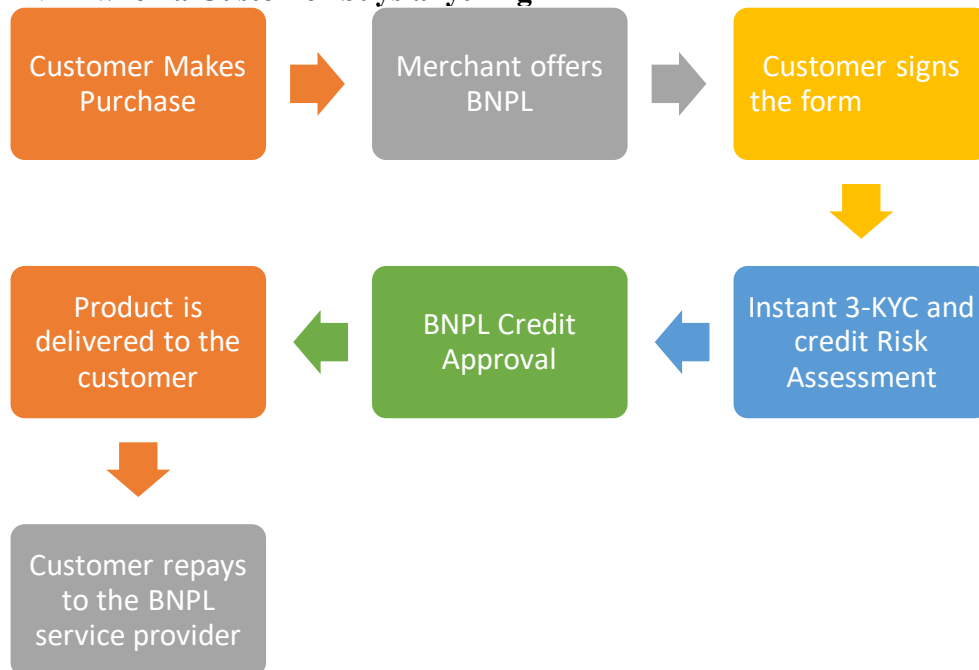
**Consumers.** Consumers refer to credit consumers or buyers who utilise the BNPL scheme and purchase any products or services in instalments from the merchants who receive full payment from the BNPL credit provider. Upon purchasing, the consumers pay some portion of the total price, and the remaining is to be paid later in instalments to the BNPL credit provider. The consumers will either use the BNPL scheme through an online application or mobile application (in-shop purchase) through the scan of the QR code

Merchants. The merchants refer to the sellers of products and services who adopt the BNPL scheme as one of the options for payment of their customers/consumers/buyers. Merchants are required to pay fees as a form of consideration for using the BNPL scheme platform. BNPL Credit Provider. BNPL credit provider refers to the fintech firm or company offering the BNPL scheme. BNPL credit provider pays merchants the total purchase price of the customers/consumers/buyers.



Source :statista 2022

**Process of BNPL when a Customer buys anything**



Source: Prove.com Blog – Buy Now Pay Later, India

**India – a leader in digital economy**

(In millions of people)	2023	2026(Projection)
Access to internet	750	950-1000
Online transactors (for banking services)	450	700-750
Mobile Payment User (Uses UPI or Digital payments)	380	650-700

Source: Reseer Consulting – Future of payments

#### 4. Risks & Challenges

##### Access to resources

Ensuring access to significant financial resources is one of the most significant challenges faced by BNPL providers in India. An efficient solution to solving this issue appears to be forming partnerships with banks and other financial institutions.

BNPL providers may offer these financial institutions their white-label technology solutions, and, in return, gain access to the institutions' much larger pool of financial resources.

##### Fraud prevention

BNPL providers also face the risks of fraud, such as identity theft, due to the speed of decision-making in their systems. In this case, the adoption of robust mechanisms for identity verification at the point of onboarding as well as decision-making models based on Artificial Intelligence (AI) and machine learning technologies have been helpful in reducing such risks.

##### Credit management

Managing credit risk is critical to BNPL operations. As the over-indebtedness of consumers could lead to a systematic increase in default rates, BNPL providers must strike a balance between expanding access to credit and ensuring that those obtaining loans have adequate repayment capability.

For that, BNPL providers need a combination of responsible lending practices and effective credit assessment systems. Initiatives to educate customers on loan terms could also help reduce the risk of non-repayment.

Some BNPL companies are already enhancing their credit management by implementing stronger credit score models. Ultimately, BNPL data could also help financial institutions build efficient risk assessment models based on consumers' online credit history.

##### Regulatory risks

Although there is currently no specific regulatory framework for the sector, the Reserve Bank of India has proposed a series of guidelines for BNPL players.

Companies using BNPL models must closely follow the advance of this initiative to understand the possible implications for their business models.

#### 5. OBJECTIVES OF THE STUDY

1. To understand the concept of BNPL and its revolution in India.
2. To analyze the market size and growth potential of BNPL in India.
3. To examine the impact of BNPL on consumer behavior and spending patterns
4. To identify the challenges and opportunities faced by BNPL providers in India
5. To study the regulatory framework and guidelines governing BNPL services in India.
6. To evaluate the risks associated with BNPL for both consumers and providers.
7. To suggest measures to address the challenges and risks associated with BNPL in India.

#### 6. Research methodology :

1. Some of the responses were also gathered in offline mode, that is, by speaking with them in person.
2. In addition to the poll, we examined certain academic journals, research papers, and official government reports to learn more about how Buy Now Pay Later services operate in India.

## 7. Review of literature

1. Jennifer Christie Siemens (2007) examines a real-money 'buy now, pay later' transaction in which individuals experienced varying time delays between transaction advantages and expenses. Consumer delight and the implications of "buy now, pay later" transactions are examined. The findings show that a previously incurred transaction benefit gets disassociated with its transaction cost over time, leading the subsequent transaction cost to be seen as a higher loss at payment time

2. H. Hidayat, A. S. Laini, S. D. Algista and H. Juwitasary, "Factors That Influence Customer Intention to Use Buy Now Pay Later (BNPL) in Indonesia," 2024 (Hidayat et al., 2024) The study delves into the Buy Now Pay Later (BNPL) concept, an online service allowing users to borrow funds for deferred repayment. Despite the popularity of BNPL, certain individuals exhibit hesitancy towards its adoption. This research aims to identify factors influencing BNPL adoption by examining user intentions through various variables. The investigation employs two frameworks, the Technology Acceptance Model (TAM) and the Theory of Planned Behavior (TPB), to analyze user intention resulting from BNPL adoption. A survey of 258 Paylater users, conducted through questionnaires and processed using SmartPLS, revealed significant findings. Trust, Subjective Norms, and Perceived Risk were identified as influencing the intention to use BNPL. Moreover, Perceived Risk was found to impact Trust, and Subjective Norms influenced Trust. However, two hypotheses did not yield significance, those are the connection between Perceived Usefulness and the intention to use, as well as the relationship between Perceived Ease of Use and the intention to use Buy Now Pay Later.  
keywords:

3. Rompas, R., Pangemanan, S., and Tulung, J. (2020) aims to understand more about how factors such as transaction benefit, transformational advertising, and discounts from the pay later service influence the lifestyle of college students that use Gopay as part of their pay later service. This study employs a quantitative technique using multiple linear regression analysis as a tool to examine the data acquired. The outcomes of this study reveal that transaction advantage and discounts have a substantial impact on students' lifestyles; however, transformational advertising has no such effect.

4. The regulatory consequences of fee-based BNPL are assessed using a results-oriented, behaviourally informed market failure method in this review by Mukherjee, S., and Pal, D. (2014). The analysis argues that Australia's fee-based BNPL regulation has resulted in various regulatory failures. Financial services regulation may be shifted toward more socially valuable and sustainable financial services by including social and consumer factors into regulatory structure assessments. A behaviour-based approach to fintech regulation might be helpful in the future and help to ensure its long-term viability

5. According to Bauer (2021). The prevalence of interest-free credit options, additionally to the increasing use of credit for an abundance of products, has in recent years been implicated as a cause for the growing amount of private bankruptcies and household debt, especially for young adults. This study aims to research how Buy Now Pay Later (BNPL) credit payment options influence consumers' willingness to incur debt. Furthermore, this study wishes to create a societal contribution by investigating whether certain consumer characteristics representing vulnerable consumer groups, like young age, lower levels of self-control and lower levels of monetary literacy, make consumers more inclined to incur debt with BNPL payment options

6. Livingstone and Lunt (1992) distinguish debtors from non-debtors by identifying characteristics of debtors as well as demographic and economic factors. They discovered that socioeconomic class had a negative association with debt, but income has a positive link with debt. They also point out that the amount of debts a person has is directly proportional to his or her level of indebtedness. While stereotypes of savers and borrowers imply that their goals and outcomes are different, Livingstone and Lunt (1993) observe that their financial strategies do not appear to be mutually incompatible.

Indeed, a significant proportion of respondents had both debt and savings, according to these researcher

7. According to Johnson et al. (2021), young adults are considered to be a key group of consumers with higher levels of impulsive consumption enabled by BNPL solutions. Accordingly, BNPL marketing campaigns are seemingly targeting young consumers to an oversized degree. This age bracket is subject to many risk factors, like low income (due to the actual fact that they're likely to possess just got rid of from home), less financial knowledge and simple access to quick payment tools.

8. Bullock, (2020) he BNPL market is gaining market shares at rapid speed, and therefore the value of BNPL has continued to grow even more during the COVID-19 pandemic. this can be because of the very fact that the pandemic has caused the transition to electronic payment methods and online shopping to maneuver even sooner (Bullock, 2020).

9. Siti Aisjah(2024)In recent years, the rise of 'buy now, pay later' (BNPL) and digital credit services has captured the attention of young consumers, particularly university students. This trend reflects a shift towards more convenient payment options compared to traditional consumer credit. However, concerns have emerged regarding the potential for unsustainable debt levels among student users. This review of literature explores the nexus between financial parenting, financial self-efficacy, social media intensity (SMI), and the intention to use BNPL services among university students.

### **8. Regulations by RBI**

In India, Buy Now Pay Later (BNPL) services are presently not regulated by any specific laws or regulations. However, some companies providing BNPL services are registered with the Reserve Bank of India (RBI) as Non-Banking Financial Companies (NBFCs) and are subject to regulations applicable to NBFCs, such as the *RBI's Master Directions for Non-Banking Financial Companies, 2016*. These regulations mandate NBFCs to adhere to specific capital adequacy norms, maintain appropriate risk management frameworks, ensure fair lending practices, establish a board for settling customer's grievances among other things.

RBI has issued guidelines for digital lending platforms titled "*Report of the Working Group on Digital Lending*" that offer loans through banks or NBFCs, which require disclosure of the names of the banks or NBFCs on whose behalf lending is done, ensuring borrower understanding of loan terms and conditions, and complying with data privacy and protection requirements. These guidelines provide some level of oversight and protection for customers availing BNPL services offered by registered NBFCs. However, they do not specifically regulate BNPL services.

The development in the field of mechanism aiming at delivering easy access to credit, needs for a more vigilant outlook. BNPL fintech services have raised several concerns, including disguised fees, information asymmetry, repossession without notice, unfair default provisions, and unequal bargaining power. Disguised fees can hinder transparency, leading to unexpected expenses and financial difficulties for consumers. Information asymmetry is a related issue, as BNPL providers may not disclose important details about their services, such as the impact on credit scores. Repossession without notice is another concern, as some providers may have the right to repossess items without adequate warning.

Unfair default provisions can lead to changes in terms or increases in fees without sufficient notice, causing budgetary challenges for consumers. Finally, unequal bargaining power may occur when BNPL providers hold an advantage over vulnerable consumers, hindering their ability to negotiate and assert their rights. These concerns should be carefully considered by consumers before entering into BNPL agreements

New RBI regulations prohibit nonbanks from using credit lines to load prepaid equipment, such as e-wallets or stored-value cards. A buyer's sole options are to preload their wallet with cash or to charge their credit card or bank accounts

The official statement released by RBI stated, "The prepaid payment instrument (PPI)-MD does not permit loading of PPIs from credit lines. Such practice, if allowed, should be stopped immediately. Any non-compliance in this regard may attract penal action under provisions contained in the Payment and Settlement Systems Act, 2007."

Several BNPL companies have been compelled to reconsider their business strategies due to the RBI's June advisory regarding prepaid payment instruments.

**Methods To Improve the Scope of Buy Now Pay Later in India** A better marketing strategy should be promoted to increase the number of BNPL users. Introducing better offers and better deals via the BNPL system should be introduced. Most importantly, BNPL companies must acquire PPI license on their own legally without the help of other third parties. The license would help BNPL companies to stand against challenges posed by RBI. Various research shows that men are equally likely to be shopaholic compared to women. Therefore, better offers and better prices should be introduced in the segment of electronics, cosmetics, clothing, etc. Better education of BNPL schemes should be delivered via the mobile apps of BNPL. Better financial education must be given to especially STEM students in India. Marketing strategies must be focused on the working professions rather than students. Customer Development: The BNPL experience must be relevant and relevant to customers. Improving the user experience can help drive adoption by providing easy sign-up, instant approval, and seamless payments. Partnering with retailers: Partnering with retailers to offer exclusive discounts and deals to BNPL users helps attract more customers and expand the BNPL. About Concerns: Some consumers may be concerned about hidden fees or its impact on their credit score. Addressing these issues through transparent communication and education can help build trust and increase adoption. By following this process, Buy Now Pay Later feature may become widespread in India as a more convenient payment option for customers.

## 9. RECOMMENDATIONS:

1. Legislation should compel BNPL providers to provide comprehensive terms and conditions to consumers, eliminating hidden fees or deceptive practices
2. Stringent data protection measures must be established to safeguard consumers' personal and financial information, reducing the risk of data breaches and identity theft
3. Mandatory registration or licensing before BNPL apps can be listed on app stores or the Google Play Store.

## 10. Conclusions:

1. Notwithstanding the benefits that credit brings to society, there is a need to regulate credit for the benefit of the consumer in particular and the society at large.
2. Consumers may be myopic and might not see the larger picture while taking credit. This is especially more relevant with BNPL since they are very easily accessible to customers.
3. In fact, the largest chunk of BNPL consumers is in the age group of 18-24 which makes it even more vulnerable to risk. Concerns include high fees, disguised fees, information asymmetry, repossession without notice, unfair default provisions, and unequal bargaining power.
4. All these reasons call for robust consumer protection while accessing credit through BNPL. Therefore, the BNPLs must be better regulated to protect the customer from predatory lending. In fact, there is a need for data protection with regard to online credit providers. Consumers should have a choice to protect their data. But, in the absence of a data protection regime, there is hardly any precedent to protect consumer data for BNPL customer

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