

To cite this article: Dr. Mehdi Bano and Dr. Md. Aijaz Khan (2025). BUY NOW PAY LATER: A DEFERRED PAYMENT OPTION, International Journal of Research in Commerce and Management Studies (IJRCMS) 7 (3): 338-345 Article No. 411 Sub Id 752

## **BUY NOW PAY LATER: A DEFERRED PAYMENT OPTION**

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DOI: <https://doi.org/10.38193/IJRCMS.2025.7325>

### **ABSTRACT**

A new deferred payment option called "buy-now-pay-later" enables customers to enjoy the advantages of ownership and consumption of products before making the final payment in interest-free instalments. A sharp increase in the buy-now-pay-later sector was observed after the launch of After pay in Australia and now it is becoming a preferred mode of payment for e-commerce transactions all over the globe. Although Buy Now Pay Later (BNPL) services can be beneficial for customers, there are some challenges involved. The objective of the paper is to understand the mechanism (How it works), the risks and benefits of the BNPL services to their customers. This paper is based on secondary data and descriptive in nature.

**KEYWORDS:** Buy Now Pay Later, Conditional sales, Instalment Sales

### **INTRODUCTION**

Speed up in digital adoption and consumers interaction way with businesses change during and after the pandemic due to restriction on movement and implementation of lockdowns. Consumers started purchasing in online mode that resulted rise in online mode of payments and the lending option of Buy Now Pay Later (BNPL). Payments are now a click away. We can carry our wallet in our smartphones. Consumers use a variety of tools to make purchases with deferred payments, like general purpose credit cards, private- label cards, and point of sale instalment loans have been available in various forms for decades. In 2020, the term buy now, pay later became shorthand for the four-payment, no interest products that were rapidly becoming more available across the online marketplace. (Tom Akana 2022) According to an India Times report, India now has approximately

22-25 million BNPL customers, with a projected increase to 90-100 million by 2026.

**Objective of the Study:**

1. To know about the concept, benefits and risks of “buy now pay later”.
2. To understand the “buy now pay later” mechanism and major players with their merchant partners operating in India.

**Type of Research:**

This study is descriptive in nature.

**Data Collection:**

This study is based on secondary data. Therefore, data collected from various sources like articles, journals, newspapers and various websites.

**REVIEW OF LITERATURE:**

**Meaning of BNPL:**

Buy Now Pay Later, is a facility offered by the merchant or form of payment that allows you to purchase the product or commodity or an article without payment or partly payment of the entire cost of particular product or commodity or articles at the time of purchase. It is a lending facility or loan. It allows you to pay in in several equal instalments, the first of which is due at checkout. The remaining payments are made through with your debit card or credit card or bank account till you completes the transaction.

**Definition of BNPL:**

Buy Now Pay Later is a term used to describe an interest-free consumer loan that is paid back in four installments or split payments. Typically, a 25% down payment is required, with the remaining three installments due at two-week intervals as specified by the Consumer Financial Protection Bureau (CFPB).

Tom Akana (2022) in his study Buy Now, Pay Later: Survey Evidence of Consumer Adoption and Attitudes” reveals that various option of deferred payments has been already available for decades such as credit cards, closed-loop or private label cards, POS installment loans, etc. Buy now pay later started in 2019 as new tool of deferred payment, primarily in online stores; this product allowed customers to make a purchase and pay in four equal instalments and it over six weeks. It is marketed by the fin-tech companies.

Srinivas & Prasad (2022) study reveals that Buy Now, Pay Later have become most popular modes of finance for retail purchases for customers and it becomes challenge to credit cards It can increase consumers' access to credit for little to no cost.

Maggio, Katz & Williams (2022) in their research “Buy now, pay later credit: User characteristics and effects on spending patterns” explore the concept of buy now pay later as a deferred payment option with minimal underwriting, low interest and cost have captured a growing fraction of the market for short term unsecured consumer credit.

Aravind et al., (2023) in their research article Buy now pay later: A revolution challenged in India” reveals that the concept of Buy Now Pay Later (BNPL) modes of payment has gained significant popularity in India and many fin-tech companies or players are entering the market but, regulatory authorities are keeping a close eye on this payment option because of concern about how it would affect consumer’s debt and stability.

Kenney et al., (2023) in their research paper Buy now, Pay later (BNPL) ...on your credit card” This study based on UK and this mode of payment is mostly using by younger consumers and from deprived geographies. In this mode of lending interest rate is zero and schedule of payment is decades long whereas credit card companies charge 20% rate of interest and they are amortizing BNPL debt to credit cards that raises doubts on these consumers’ ability to pay for BNPL.

## **DISCUSSIONS:**

Buy Now Pay Later is a new lending option for the buyers on the basis of their past purchase history and their bank transactions with an instant credit limit. Generally, credit facility is given on the basis of their credit score and sometimes several other factors also be considered. Therefore, customers with lower credit limit may be benefitted through this criterion. This is applicable for purchases on e - commerce sites and retail stores and this interest free debt is repaid within a period of 30 days. Consumers can also pay in three, six, nine and twelve equal instalments. A number of Buy Now Pay Later (BNPL) Apps have emerged in the Indian market in recent years. This App gives users an instant credit line to pay for groceries, utilities, shopping, and other expenses, much like credit cards do. This provides a simple and practical means for consumers to pay for their everyday needs without having to worry about running out of cash.

**Benefits of Buy Now Pay Later:** Here are the 5 key benefits of Buy Now Pay Later -

1. Financial workability: BNPL helps in managing the cash flow of the customers more effectively. It will ensure essential purchases even if they do not have sufficient money to purchase that essentials and it will give the time to users for repayment of such debts.
2. Convenience: BNPL offers convenience to their customers, instalment facility as per their requirements and eliminating the need of full payment at the time of purchase. Customers can get the desired products or services immediately without waiting or saving up the entire sum.
3. Budget Management: Buy now pay later helps customers to plan and budget their expenses more

efficiently. They can break down larger expenses into smaller, more manageable payments, making staying within their financial means easier.

4. Interest-Free Periods: Interest free period is offered by Some BNPL that allowing the customers to repay their debt without interest or any additional charges if, they paid within a given specified period of time.

5. No Credit Checks: Unlike traditional credit options, Buy now pay later often does not require a credit check. This opens it up to a wider group of clients, including those with no credit history or very little credit history.

### **Risk involved in Buy Now Pay Later**

Buy Now, Pay Later is popular fin-tech-enabled payment option, commonly offered on e-commerce platforms.

1. Lack of Regulation: Critics highlight the absence of robust regulation in the BNPL space. Unlike traditional credit providers, BNPL transactions often involve minimal disclosure of consumer information. There may be hazards as a result of this oversight gap.

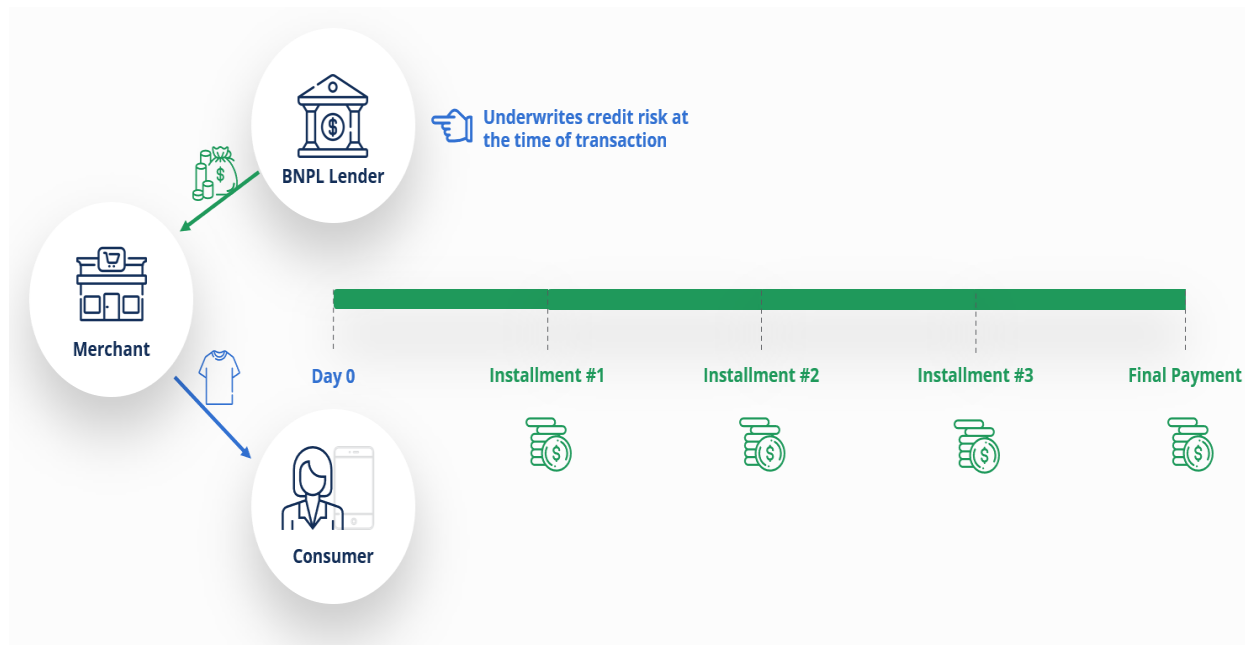
2. False Sense of Security: BNPL's allure lies in its convenience – consumers can make purchases with minimal upfront payments and spread the cost over installments. This simplicity, nevertheless, may give rise to a delusion of financial security. Buyers may overlook the cumulative impact of multiple BNPL transactions, leading to overextension.

3. Consumer Debt Accumulation: Frequent BNPL usage can result in consumers accumulating debt within the BNPL ecosystem. Their capacity to pay other financial obligations outside of BNPL agreements may be hampered by this continuous usage.

4. Merchant Risk: While BNPL benefits merchants by boosting sales, it also exposes them to potential risks. Late or missed payments by consumers could impact the merchant's cash flow.

5. Creditworthiness: BNPL providers often make quick credit decisions, making it accessible to consumers who might not qualify for traditional credit cards. However, this rapid approval process may not fully assess a buyer's creditworthiness.

**Mechanism:** Buy Now, Pay Later (BNPL) loans come in a variety of forms, they typically offer fixed-rate, short-term loans with no interest. To make the transaction, you can utilize a BNPL app, or your credit card may offer BNPL choices. You can choose to "buy now, pay later" at the checkout when making a purchase at a participating retailer when using BNPL. You put down a little deposit, perhaps 25% of the total purchase price, if you are accepted. The remaining balance is then paid off over a period of interest-free installments, typically a few weeks or months. There are three parties involved in a BNPL transaction – a consumer, a merchant, and a financial services provider (usually a fin-tech).



(Source: Kyle Peterdy, *Buy Now, Pay Later*, CFI

<https://corporatefinanceinstitute.com/resources/commercial-lending/bnpl-buy-now-pay-later/>)

### Major BNPL Players operating in India.

Following are the BNPL players engaged in the business:

1. **Simpl Pay Later:** This BNPL commenced their services in 2016 by One Sigma Technologies Private Limited and they are providing credit limit range from Rs. 7500 to 50000 for the clients to whom the invitation is sent, the cap has already been set. With a 15-day payback cycle, there are two bills generation cycles per month. It also lets you pay utility bills like prepaid and postpaid mobile, electricity, DTH, and broadband from within the app using a given credit limit. Following merchant companies are associated with them: Zomato, Dunzo, Rapido, Gaana, BigBasket, IMG, Meesho, First Cry, and more.
2. **ZestMoney:** This player launched their services in the year 2016 by DMI Infotech Solutions Private Limited and they are providing credit limit up to Rs. 200000 and credit period is up to six months. with select merchants; Decathlon, MakeMyTrip, MI, Paytm, Flipkart, Uber, BookMyShow, Curefit, Jabong, Myntra, Pepperfry, Fossil, Kurl On & others.
3. **LazyPay:** launched its services in 2017 by PayU Finance India Private Limited and their credit limits are up to Rs. 100000. They are providing free credit period fifteen days after the interest-free period ends, during which you must reimburse the money and pay the bill (on the third and eighteenth of each month). Depending on the available plans, you can opt to convert your transaction value into Easy EMI if it exceeds ₹10,000. Their merchant partners are as follows; Zomato, Swiggy, BookMyShow, Airtel, and more.

4. **Paytm Postpaid:** BNPL services started in 2019 by One 97 Communications Limited and they are offering interest free credit up to Rs. 60000/- depending on the user's creditworthiness. They are allowing free credit period ranging from 15 days to 60 days. Services provided by the BNPL are as follows on their platform: Paytm Mini Apps Payments, Recharges & Bill Payments, Shopping on Paytm Mall, Payment on Internet Apps, Buying essentials at Kirana Stores.
5. **Amazon Pay Later:** this BNPL player started their services in the year 2020 by Amazon Finance India Private Limited in partnership with IDFC FIRST Bank and they are providing up to Rs.60000 credit limit, free credit facility to their customers is 30-days. The money can be paid in installments over a period of three to twelve months, or by the fifth of the following month. Following merchants are associated with them: Fasoos, Komparify, FreshMenu, AbhiBus, Red Bus, BookmyShow, Lavie, Urban Lader, Byju's, Café Coffee Day and others.
6. **Flipkart Pay Later:** BNPL services launched in 2020 by Flipkart. They are providing credit limit up to Rs.1,00,000/- depending on their credit profile and credit period allowed by the company is 30 days full or in installments. Throughout the month, customers are allowed to shop for select products on Flipkart, Myntra and Shopsy as often as they like.

#### CONCLUSION:

The days of having only a few alternatives for making payments following an internet purchase are long gone. It makes sense that the buy now, pay later option has begun to catch on as more credit transaction methods become popular in India. The customer obtains financing online as part of one purchasing process, which significantly affects the quality of customer experience related to online shopping. BNPL is often a financially more beneficial product for the consumer than other forms of financing. Quick-approval, interest-free credit line for spending on groceries, shopping, rent, utilities, and other expenses. It enables individuals to satisfy their needs and wants without being constrained by their financial situation. Additionally, the majority of BNPL apps run alluring sales and promotions on websites and e-commerce shops. Therefore, believes that India will emerge as the largest BNPL market globally over the next five years, driven by digital savvy consumers seeking transparency and simplicity in financial products.

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