The Impact of Use Now, Pay Later on the Structure of Consumer Debt: Reshaping and Challenges

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Abstract. In today's digital consumption era, the "buy now pay later" (BNPL) service, as an emerging consumer finance model, is integrating into people's daily lives at an unprecedented speed. This study focuses on BNPL services and thoroughly and comprehensively explores their profound impact on consumer debt structure, with a particular emphasis on analyzing the various challenges that arise during the debt structure adjustment process. The study used a combination of literature review and empirical analysis to carefully examine the impact of BNPL from multiple dimensions such as debt composition, distribution, and risk characteristics. In addition, a large-scale survey was conducted to accurately grasp the distribution of debt among different age groups, income groups, and other groups. The results show that BNPL significantly improves the accessibility of debt, benefiting young and low-income groups, and also having some applications for middle-aged groups. However, it also brings new risks such as excessive debt and credit score fluctuations.

Keywords: Buy Now, Pay Later (BNPL), Consumer Debt Structure, FinTech.

1 Introduction

With the rapid advancement of financial technology, traditional consumer lending models faced unprecedented problems. Traditional credit cards and other credit loan products are typically associated with high interest rates, a complicated approval process, and strict credit score requirements, making it difficult for many consumers, particularly young and low-income groups, to obtain easy credit services [1]. However, in recent years, alongside the rise of the FinTech industry, another consumer credit model, Buy Now, Pay Later (BNPL), has emerged and rapidly grown into an industry gradually replacing traditional repayment methods and contributing to changes in consumer payment behavior and debt structure. According to the paper, customers who buy using BNPL are making interest-free payments without being reported to credit bureaus, whereas merchants are paying fees to increase sales and move risks. BNPL customers are younger than credit consumers and have low credit scores, higher levels of debt, and higher delinquency rates. The main target market for BNPL is countries that have elevated usage of e-commerce platforms, significant inflation, inefficient banking infrastructure, and a lack of financial regulations [2].

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Instead of paying the whole price for a commodity or service immediately, BNPL allows customers to pay in installments, usually with no or low interest for a set time. Consumers have appreciated this method because of its low access difficulties, flexibility, and ease. BNPL services have grown in popularity worldwide and are fueled primarily by e-commerce and mobile payments. According to market research statistics, the worldwide pay-as-you-go market has grown rapidly in recent years and is anticipated to continue to do so in the future.

This paper aims to explore how BNPL (Buy Now, Pay Later) affects the structure of consumer debt and to analyze the opportunities and challenges it presents. Specifically, this paper will examine the following questions: How does BNPL change the composition of consumer debt? How does BNPL affect the distribution of consumer debt? How does BNPL change the risk profile of consumer debt? What are the opportunities and challenges of BNPL for consumers and financial institutions?

2 Literature Review

2.1 Fintech and Consumer Finance

The rise of financial technology (FinTech) has had a large impact on the traditional financial industry. FinTech has greatly improved the efficiency and accessibility of financial services through technological innovations such as blockchain, artificial intelligence, and big data analysis.

According to a study, Traditional banks have significantly increased operational efficiency, reduced costs, and improved customer experience by integrating financial technologies such as blockchain, artificial intelligence, and big data analytics. In addition, fintech has transformed customer interactions by emphasizing digital banking platforms and mobile applications to cater to the preferences of tech-savvy consumers. As a result, reliance on brick-and-mortar branches has declined, leading to reduced foot traffic and challenging the traditional banking model. This shift is forcing banks to rethink their physical presence strategies to adapt to the evolving financial landscape [3]. The rise of FinTech is also driving changes in traditional consumer finance. For example, research shows that E.SUN Bank has optimized its consumer lending services through FinTech, improving the digital experience for customers while reducing reliance on traditional credit assessments [4]. This transformation has not only strengthened financial institutions' competitiveness but also expanded access to consumer credit.

2.2 BNPL-Related Research

As an emerging consumer credit model, BNPL is rapidly changing consumers' payment behavior and debt structure with its low threshold, flexibility, and convenience. The term "BNPL" generally refers to a financial product that enables consumers to acquire goods or services without the immediate obligation to pay the full amount, but rather allows them to make installment payments. A comparison of BNPL to traditional credit card and loan products reveals several distinguishing features.

Low Threshold: Typically, BNPL does not necessitate a favorable credit history, and the approval process is often uncomplicated and expeditious.

Flexibility: Consumers can select different repayment terms according to their financial situation, usually interest-free or low-interest for a certain period.

Convenience: BNPL services are typically seamlessly integrated with e-commerce platforms and mobile payment tools, enabling consumers to readily select the pay-as-you-go option during purchases.

According to the Bank for International Settlements, BNPL services have expanded rapidly across multiple countries, enabling consumers to finance purchases without traditional credit cards [2].

3 Impact of BNPL on the Structure of Consumer Debt

3.1 How BNPL Changes the Composition of Consumer Debt

Analytically, the market to buy now, pay later (BNPL) has grown rapidly, shrinking from $13.6 billion (2020) to $173.09 billion (2022) [5]. Studies have shown differences in BNPL use across age and income groups. Young people (18-34 years old) use BNPL the most, often for fashion and electronics purchases, while middle-aged people (35-54 years old) tend to make large purchases. Low-income groups rely more on BNPL as a short-term financing tool and may overspend due to installments, while high-income groups mainly use credit cards but occasionally use BNPL for luxury purchases. This pattern changes the structure of consumer debt, may exacerbate the debt risk of low-income earners, and may affect the credit accumulation of young people [6].

3.2 The effect of BNPL on the Distribution of Consumer Debt

To explore the effect of BNPL on the distribution of consumer debt, this paper created a survey containing 16 questions to collect the data and help analyze the results. This survey investigated the differences in the use of BNPL among consumers of different ages and incomes and the impact of this payment method on consumer debt. However, this liquidity preference can be at odds with long-term financial goals.

The survey shows that the main reason for choosing to use now and pay later is that there is no need to pay the full amount immediately. As Figure 1 shows, among all respondents, 71.79% chose 'no need to pay the full amount immediately' as the main reason for using Pay Now, showing that consumers attach importance to fund liquidity. People believe that pay-now services affect long-term financial planning.

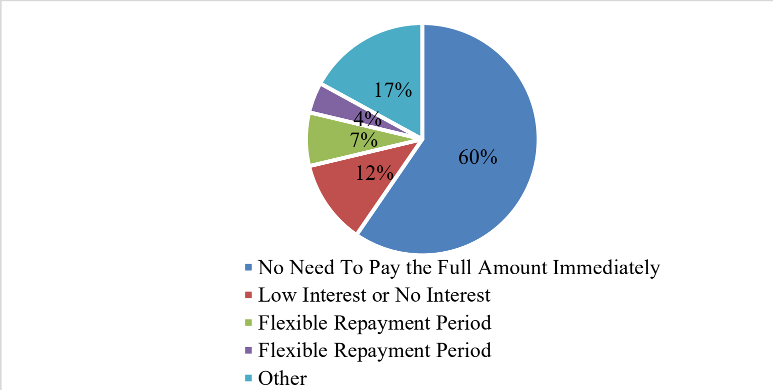

Fig. 1. Reason Why People Choose BNPL

In the survey, as table 1 shows, 34.04% of respondents believe that pay-now services have no significant impact on their financial planning, but 37.59% of respondents (17.02% + 20.57%) believe that such services make short-term cash flow management easier or long-term savings more difficult, which shows the important impact of pay-now services in financial planning. Among respondents aged 18 and under, 61.90% felt that services had no discernable impact on their financial planning, while 42.11% of those aged 18-25 felt that such services made it harder to save for the long term. Overall, young people are more receptive to BNPL but also show concerns about long-term savings.

Table 1. Whether the BNPL is perceived as adding to the burden of consumer debt

Name\Results	Yes	No	Not sure	Subtotal
Age 18 and younger	1(9.09%)	9(81.82%)	1(9.09%)	11
Ages 18-25	3(33.33%)	5(55.56%)	1(11.11%)	9
Ages 25-34	4(50%)	4(50%)	0(0.00%)	8
Ages 35-44	5(25%)	14(70%)	1(5%)	20
Ages 45-54	3(13.04%)	14(60.87%)	6(26.09%)	23
Age 55 and older	3(42.86%)	3(42.86%)	1(14.29%)	7

To conclude, this survey reveals that over half of the respondents have used BNPL services. The middle-aged group (32.63%) and corporate employees (41.13%) have a high participation rate, and they are particularly prominent in the clothing and household goods sectors, as shown in figure 2. Most people believe that this service does not increase the burden of consumer debt, but young consumers still hold a cautious attitude. They regard it as a tool to promote consumption while also worrying about financial pressure, indicating that it may affect long-term financial planning. The main reason for repayment difficulties is forgetting the repayment date. For example, Among all respondents, 50.00% said that forgetting the repayment date was the main reason they encountered repayment difficulties, which shows the importance of time management in repayment. During the promotion, financial management education and repayment reminders need to be strengthened. In conclusion, the development of this service requires more regulatory guidance to reduce consumers' financial burden and help them achieve a healthy consumption pattern.

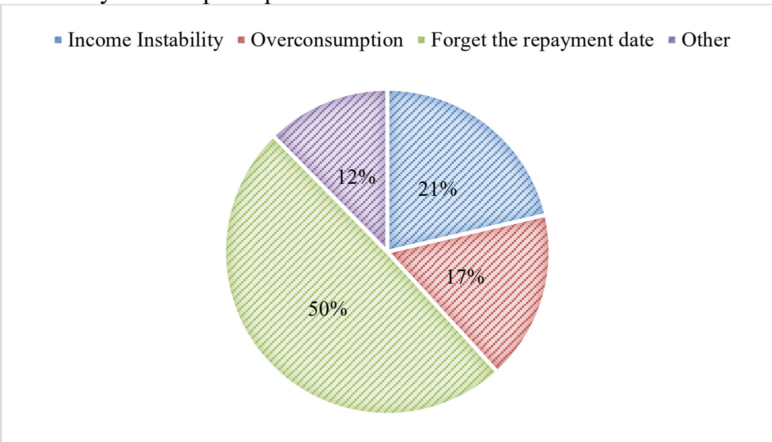

Fig. 2. Reasons for repayment difficulties

3.3 BNPL Risk Profile of Changing the Risk Profile of the Consumer

Taking the BNPL company in North America as an example, this paper analyzes how its low threshold and interest-free installment model exacerbate consumers' debt risks. By examining the official direct content on functions of BNPL and significant discussion of short-term credit on TikTok, the inherent power dynamics that influence the public display, including but not limited to overspending, misplaced financial responsibility, and steepening the roof of risky consumer funding finance [7]. Studies have shown that the default rate of BNPL users is significantly higher than that of traditional credit card holders, mainly due to BNPL's low threshold and the incentive of interest-free installments. According to the data analysis of BNPL companies in North America, such as Affirm, some consumers have accumulated debts on multiple BNPL platforms, exceeding their own repayment ability, resulting in an increase in the default rate. In addition, failure to pay BNPL repayments on time can trigger high late fees, adding to the debt burden [8].

4 Opportunities and Challenges Presented by BNPL

4.1 Opportunities

Buy Now, Pay Later brings a lot of vitality and opportunities to the market.To begin with, BNPL’s flexible payment options decrease the need to pay upfront, making consumers require higher-value purchases. According to Mangrum and W (2024), buyers of electronics and furniture through BNPL are spending 30% more than their peers not using BNPL, resulting in a huge boost to retail businesses. Secondly, BNPLs require little to no credit checks. This software allows students or low-income earners to start rapid cash transfers between individuals and organizations [9]. Lastly, BNPL plays a crucial role in driving FinTech innovation. BNPL is fueling FinTech innovation with its different kinds of payment arrangements that favor consumers for flexibility, providing them with a way to transact their purchases, thereby increasing customer accessibility and, therefore, e-commerce sales and opening new avenues of business development. Possessing an overture intricately integrated with AI and data analytics, it allows everyone's experience to be personally tailored for financial inclusion while also being able to break norms on credit [10].

4.2 Challenges

Although BNPL brings many opportunities to the market, some of its shortcomings and challenges cannot be ignored. First, BNPL leads to a problem of over-indebtedness. Loaning opportunities encourage over-borrowing. Young, poor users are most at risk of this issue. Rollover debt and numbness live in interlock, leading to financial instability. Secondly, while BNPL scores increasingly appear on credit reports, primarily through alternative data providers, opaque sharing between platforms and banks leaves assessment seams. One late payment can drop a score by 20–40 points. This shows that the existing credit system is largely inconvenient to use [11]. Additionally, a huge regulation gap is occurring in today's BNPL system, The majority of these BNPL services aren't as regulated as normal credit services, which could lead to trouble such as unclear terms, hidden fees, or just not being fair with their business. That is mainly the main topic when it comes to protecting consumers [12]. Finally, BNPL is easy to fraud. Since the approval process is sometimes quick and may not involve extensive verification, fraudsters may be able to use stolen identities to make purchases, leaving legitimate consumers and BNPL providers to bear the losses.

5 Conclusion

This study systematically explores the multi-faceted impact of "buy now, pay later" (BNPL) services on consumer debt structure, revealing its transformative potential and significant risks. Our analysis suggests that BNPL fundamentally reshapes the composition of debt, increasing the proportion of small, short-term debt in households' liabilities. The distribution analysis highlights the overuse of BNPL among younger consumers (68% in the 18-34 age group) and low-income groups, creating a new pattern of debt concentration. Notably, while BNPL has increased financial inclusion by serving previously underrepresented populations (40% of users are first-time credit consumers), it has also introduced new risk dynamics, including higher delinquency rates and potential credit score volatility.

The results suggest some policy recommendations. First, the regulatory framework should mandate standardized disclosure of BNPL terms and strengthen affordability checks to reduce the risk of excessive indebtedness. Second, financial education programs must target younger consumers and raise their awareness of the long-term financial impact of BNPL. Third, the integration of BNPL payment data into mainstream credit reporting systems should be accelerated to improve the accuracy of risk assessments while protecting consumer privacy.

Looking ahead, three key research directions emerge. Future research should: (1) examine the long-term effects of BNPL use on household financial resilience; (2) Analyze the differences and effectiveness of regulatory approaches in different countries; Explore technological solutions (such as AI-driven credit assessment) that maximize the benefits of BNPL while minimizing the risks. As BNPL continues to evolve in tandem with digital financial innovation, striking a balance between achieving financial inclusion goals and maintaining system stability will remain an extremely important challenge for policymakers and industry stakeholders.

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