Behavioural and Psychological Determinants of Buy Now, Pay Later Adoption

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Abstract - The global financial ecosystem is undergoing a structural shift as Buy Now, Pay Later (BNPL) transitions from a fintech novelty to a foundational pillar of modern consumer credit. This research paper investigates the behavioural and psychological determinants driving BNPL adoption, synthesizing secondary data and empirical findings from 2018 to 2026. Utilizing theoretical frameworks such as the Technology Acceptance Model (TAM) and the Unified Theory of Acceptance and Use of Technology (UTAUT2), the study identifies performance expectancy, effort expectancy, and materialism as critical drivers of adoption. Psychologically, the "illusion of income" generated by Credit Limit Misconception (CLM) and the reduction of the "pain of payment" through instalment framing are found to lower cognitive resistance to spending. Experimental evidence reveals a significant spending uplift (4.39% higher than debit transactions) and an inflated perception of available funds (22.2% higher likelihood of discretionary purchase). The paper further analyses the socio-demographic stratification of users, highlighting the prevalence of BNPL among Generation Z and lower-income cohorts. Finally, it explores the regulatory response, specifically India's Reserve Bank of India (RBI) 2025 Directions, which aim to stabilize the sector through mandatory disclosures and localized credit rails like UPI. The findings suggest that while BNPL democratizes access to short-term credit, its reliance on behavioural nudges necessitates robust consumer protection to mitigate risks of over-indebtedness and post-purchase regret.

Key Words: *Technology Acceptance Model, Illusion Of Income, Pain of Payment, Credit Limit Misconception, Unified Theory Of Acceptance, Use of Technology*

1. Introduction

The global payments landscape is witnessing a paradigm shift as consumers increasingly move away from traditional revolving credit card debt toward structured, digital-first instalment products. Buy Now, Pay Later (BNPL) services—short-term, point-of-sale credit facilities that allow consumers to defer payment through interest-free instalments—have emerged as the fastest-growing financial technology of the decade. By the end of 2031, the global BNPL sector is projected to reach a valuation of approximately US$1 trillion, growing at a compound annual growth rate (CAGR) of 14.7% from 2026.

In India, the BNPL market is experiencing even more rapid expansion, expected to grow by 22.5% annually to reach US$30.45 billion by 2026. This growth is driven by the integration of credit into ubiquitous national payment rails, such as the Unified Payments Interface (UPI) and the "Credit Line on UPI" framework. While BNPL offers significant convenience and flexibility, particularly for younger and "new-to-credit" consumers, it has also attracted intense regulatory and academic scrutiny due to concerns over impulse buying, "phantom debt," and financial vulnerability. This paper provides a comprehensive analysis of the psychological and behavioural mechanisms that underpin the adoption and impact of these services.

2. Theoretical Frameworks for Technology Adoption

Understanding the drivers of BNPL adoption requires the application of established models that categorize how users interact with financial innovations.

2.1 The Unified Theory of Acceptance and Use of Technology (UTAUT/UTAUT2)

The UTAUT model is a prominent framework for forecasting technology adoption. It consists of four fundamental components: performance expectancy, effort expectancy, social influence, and facilitating conditions.

- **Performance Expectancy (PE):** The belief that using BNPL will maximize financial flexibility and shopping efficiency.

- **Effort Expectancy (EE):** The degree of ease associated with the platform. BNPL's "minimal click" checkout process significantly reduces time and cognitive effort.

- **Social Influence (SI):** The impact of perceived social norms. Exposure to social media influencers and trends on platforms like TikTok and Instagram significantly increases adoption intentions among Gen Z.

- **Habit and Hedonic Motivation:** In the expanded UTAUT2 model, "habit" has been identified as the most important predictor of actual usage behaviour among experienced users, while "hedonic

motivation"—the pleasure derived from the shopping experience—fuels the initial interest.

2.2 The Technology Acceptance Model (TAM)

The TAM identifies perceived usefulness (PU) and perceived ease of use (PEOU) as the primary determinants of adoption. In mature digital markets like Poland, researchers have observed that PEOU and trust have begun to lose explanatory power. Instead, perceived risk (PR) and personal innovativeness (PI)—the individual's willingness to try new information technologies—have emerged as the leading factors influencing adoption attitudes.

3. Objectives

- To analyse the behavioural and psychological factors influencing BNPL adoption.
- To examine BNPL usage through established technology acceptance models.
- To assess the impact of BNPL on consumer spending behaviour and financial outcomes.
- To examine the regulatory response to BNPL services in India.

4. Behavioural Determinants: The Illusion of Income

One of the most profound behavioural drivers of BNPL adoption is the psychological restructuring of the consumer's perceived wealth.

4.1 Credit Limit Misconception (CLM)

Credit Limit Misconception (CLM), often described as the "illusion of income," occurs when consumers erroneously interpret an available credit limit as a component of their current earnings rather than a future debt obligation. This misconception generates a positive attitude toward BNPL by providing a sense of financial empowerment.

- **Mechanism:** Consumers affected by CLM assess expenses based on their credit limit rather than their bank balance.
- **Cognitive Dissonance:** When behaviour (overspending) conflicts with beliefs (the need for financial safety), consumers resolve the tension by convincing themselves that BNPL is a "responsible" or "quick" financial choice.

4.2 Impulsiveness and Personal Innovativeness

Impulsive buying behaviour refers to unplanned purchasing decisions triggered by emotions or marketing stimuli. BNPL

mechanisms act as "behavioural nudges" that align with Impulsive Buying Theory by facilitating spending that is not planned. Furthermore, "Personal Innovativeness" acts as a personality trait where users adopt BNPL not just for utility, but as a way to engage with the latest e-commerce trends.

5. Psychological Determinants: Minimizing the "Pain of Payment"

Psychological factors determine the internal emotional state of the consumer during the transaction process, often working to minimize the negative affect associated with spending money.

5.1 Temporal Reframing and Price Segregation

BNPL minimizes the "pain of payment" by changing how consumers perceive costs. By dividing a lump sum into smaller, interest-free parts (e.g., "$15 today" instead of "$60"), the technology uses "segregated frames" to make costs more palatable.

- **The "Pennies-a-Day" Framework:** The "Pennies-a-Day" framework works by reframing a large, potentially intimidating price into very small, almost trivial units. Instead of seeing a single lump-sum amount, consumers are encouraged to evaluate the cost as a sequence of tiny, everyday expenses.
- **Payment Decoupling:** Payment decoupling refers to the psychological separation between the moment of consumption and the moment of payment. Traditional payment methods like cash or debit cards tightly couple these two experiences: the pleasure of acquiring a product occurs simultaneously with the pain of paying for it.

5.2 Psychological Ownership and Financial Optimism

- **Psychological Ownership of Borrowed Money:** Psychological ownership of borrowed money refers to the extent to which consumers mentally treat BNPL credit as their own personal funds rather than as debt. When credit limits are pre-approved, instantly available, and seamlessly integrated into the checkout process, users experience a sense of control and entitlement over the money. This perception reduces the psychological distinction between earned income and borrowed funds, weakening traditional caution associated with spending debt. As a result, consumers are more willing to allocate this money to discretionary or non-essential purchases. The stronger the feeling of ownership, the lower the perceived obligation to carefully manage repayment. In BNPL

contexts, this can lead to higher spending levels and repeated usage of deferred payment options.

- **Financial Optimism:** Financial optimism reflects a consumer's positive expectations about future income, financial stability, or repayment capacity. Optimistic consumers believe that upcoming salaries, bonuses, or career progression will comfortably cover future instalments. This belief reduces perceived risk associated with deferred payments and encourages the use of BNPL as a short-term financial bridge. Such optimism often leads consumers to underestimate potential financial shocks, such as unexpected expenses or income disruptions. Consequently, repayment obligations are psychologically discounted at the time of purchase. While financial optimism can support confident consumption, excessive optimism increases the likelihood of over-commitment and repayment stress.

- **Materialism:** Materialism refers to the importance individuals place on possessions as symbols of success, happiness, and social status. Highly materialistic consumers derive emotional and social value from acquiring visible, status-enhancing goods. BNPL enables these consumers to access desired products immediately without waiting for sufficient savings, aligning perfectly with materialistic consumption goals. The availability of deferred payments lowers the entry barrier to premium or aspirational products. This encourages consumption driven more by identity and social comparison than by financial readiness. Over time, BNPL can reinforce materialistic tendencies by normalizing consumption without immediate ownership of financial responsibility.

6. Behavioural Economics: Anchoring and Framing at the Point of Sale

Providers utilize specific cognitive biases at the checkout window to increase conversion and basket size.

6.1 Anchoring Bias

Anchoring is a heuristic bias where individuals rely heavily on initial reference points. In BNPL, the instalment price (e.g., "$25") becomes the anchor. Consumers evaluate the "deal" based on its relation to that $25 figure rather than the total cost of the product. Case studies show that the removal of high-anchor prices can lead to a significant drop in perceived value and consumer trust.

6.2 Mental Accounting and the Bottom Dollar Effect

Mental accounting describes how consumers treat BNPL funds as current income. This leads to the "bottom dollar effect," where consumers are more likely to make a purchase when they perceive their budget is still far from zero. Experimental data shows that participants who use BNPL for early purchases are 22.2% more likely to buy discretionary items later in a shopping round because they have an inflated perception of their remaining balance.

Behavioural Bias	Impact on BNPL Consumption	Mechanism
Anchoring	Lowers perceived cost relative to value.	Presenting the instalment as the primary price.
Mental Accounting	Inflates perception of available funds.	Consumers incorporate anticipated credit into present budgets.
Pain of Payment	Reduces cognitive resistance to spending.	Segregating a large price into trivial-seeming instalments.
Bottom Dollar Effect	Prompts discretionary spending.	Delaying the approach of the budget's "zero point".

7. Socio-Demographic Evidence and Market Dynamics

The adoption of BNPL is characterized by clear divides in age, income, and educational attainment.

7.1 Generation Z: The Vanguard of Adoption

Generation Z and Millennials are the primary drivers of the BNPL market. In the United States, 44% of Gen Z (approximately 30 million people) used BNPL in 2024. In India, Gen Z commanded a 39.40% share of the BNPL market in 2025.

- **Usage Frequency:** Nearly 40% of Gen Z use BNPL weekly or more often.

- **Rationale:** Younger cohorts prefer BNPL due to a mistrust of revolving credit card debt and a desire for predictable instalment plans.

7.2 The Income and Education Divide

Usage of BNPL is higher among individuals without a college degree and monotonically decreases as income rises. In households earning under $50,000, BNPL serves as a primary tool for managing large or unexpected expenses, with 62% of this group relying on BNPL over credit cards.

8. Consequences: Financial Health and Risk

While BNPL offers liquidity, secondary data reveals significant risks associated with its misuse.

8.1 Spending Uplift and "Phantom Debt"

Controlled experiments indicate that participants spend, on average, 4.39% more when using BNPL compared to debit cards. Furthermore, "phantom debt"obligations invisible to traditional credit bureaus—remains a systemic concern.

- **Loan Stacking:** 63% to 66% of BNPL users take out multiple loans simultaneously, with 33% borrowing from multiple lenders at once.

- **Credit Utilization:** BNPL users typically carry higher balances on other unsecured credit, including $871 more in credit card debt and $453 more in personal loans than non-users.

8.2 Delinquency and Regret

Late payments are on the rise, increasing from 18% of users in 2023 to nearly 25% by 2025. Among Gen Z, this rate is as high as 39% to 51%. This financial stress frequently results in post-purchase regret; 26% of users admit to regretting a BNPL purchase once the full cost of instalments is realized.

9. Regulatory Evolution: The RBI 2025 Framework

India has taken a proactive stance in stabilizing the digital lending market through the *Reserve Bank of India (Digital Lending) Directions, 2025*, issued on May 8, 2025.

Key Provisions of the 2025 Directions:

1. **Key Facts Statement (KFS):** The Key Facts Statement (KFS) is a mandatory, standardized disclosure document designed to improve transparency in digital lending. Regulated Entities (REs) are required to clearly present critical loan information, including the Annual Percentage Rate (APR), all applicable fees and charges, the loan tenor, and the total amount payable by the borrower. By standardizing the format, the KFS allows borrowers to easily compare loan offers across providers without confusion. This reduces information asymmetry between lenders and consumers. Clear upfront disclosure also limits the scope for hidden charges and post-disbursement surprises. Overall, the KFS strengthens informed decision-making and consumer protection.

2. **Direct Fund Flow:** The direct fund flow requirement mandates that loan disbursements move straight from the Regulated Entity to the borrower's bank account. Similarly, repayments must be routed directly from the borrower to the Regulated Entity, bypassing third-party pool or escrow accounts. This framework enhances traceability and accountability of loan transactions. It reduces the risk of fund misuse, misappropriation, or regulatory arbitrage by intermediaries. Direct fund flow also improves auditability and strengthens supervisory oversight. As a result, borrower trust and system integrity are significantly enhanced.

3. **Cooling-off Period:** The cooling-off period grants borrowers a minimum one-day window to exit a digital loan without incurring penalties. This provision acknowledges that digital loans are often sanctioned instantly, sometimes without sufficient deliberation. The cooling-off window allows borrowers to reassess their financial decision after the initial purchase or loan approval excitement subsides. It serves as a behavioural safeguard against impulsive borrowing. By permitting penalty-free exit, the regulation reduces borrower regret and potential financial distress. This mechanism promotes more responsible borrowing behaviour in fast-paced digital lending environments.

4. **Anti-Dark Pattern Mandates:** Anti-dark pattern mandates prohibit digital lending platforms from using deceptive user-interface designs that manipulate borrower decisions. Practices such as hidden fees, misleading consent buttons, or forced opt-ins are explicitly restricted. In addition, lending apps are barred from accessing sensitive personal data such as contacts, photos, or media files that are unrelated to credit assessment. These restrictions protect borrower privacy and autonomy. By eliminating manipulative design practices, the regulations ensure that consent is informed and voluntary. Overall, these mandates align digital lending practices with ethical design and consumer rights principles.

These regulations have shifted the market toward bank-linked products and card-based EMIs, reducing the viability of standalone, unregulated fintech models.

10. Sectoral Expansion and Future Outlook

BNPL is transcending its retail roots and gaining traction in essential sectors, changing the psychological stakes of deferred payments.

- **Essential Spending:** 31% of users now utilize BNPL for groceries and 22% for food delivery.

- **Healthcare and Wellness:** In India, this sector is advancing at a 25.58% CAGR, as patients use instalments for high-ticket medical procedures.

- **Integration with UPI:** The "Credit Line on UPI" framework will make BNPL an embedded behaviour for the next 100 million credit users, delivering it through existing QR code infrastructure rather than standalone apps.

11. Conclusion

The adoption of Buy Now, Pay Later services is driven by a powerful synergy of technological convenience and behavioural psychology. Theoretical frameworks reveal that while ease of use and social influence attract users, the "illusion of income" and the minimization of the "pain of payment" drive substantial consumption. While BNPL has successfully democratized access to short-term credit, the findings of this study emphasize that it also induces a significant spending uplift and encourages debt stacking among vulnerable populations. The global regulatory shift toward transparency, exemplified by India's 2025 Directions, is a critical step in transforming BNPL into a sustainable financial utility. For the sector to succeed, providers must move beyond behavioral "nudges" and focus on long-term consumer financial health.

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