

# Buy Now, Pay Later Services: Evaluating Their Economic and Regulatory Impact on Consumers and Retailers

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**Abstract:** *The Buy Now Pay Later (BNPL) service has witnessed rapid growth. It has had a significant impact on the consumer finance landscape by emerging as a new alternative to traditional credit and payment systems. This paper presents a comprehensive analysis of the complex effects of Buy Now, Pay Later (BNPL) services, with a specific focus on their impact on consumer financial well-being, retail dynamics, and regulatory frameworks worldwide. Buy Now, Pay Later (BNPL) has significantly expanded financial inclusion and driven economic activity worldwide, driven by fintech advancements, digitally skilled young populations, and an increasing shift toward cashless transactions. BNPL services and associated platforms empower underserved and younger segments to participate actively in the financial ecosystem, becoming potential buyers. However, at the same time, it introduces risks such as irresponsible spending behavior, debt accumulation, and economic instability, which may occur due to unclear repayment terms and insufficient consumer protection measures. This article aims to evaluate the Buy Now Pay Later (BNPL) services by examining historical data, expected growth, and consumer behavioral patterns. Additionally, it will identify the key factors behind consumer favorability of BNPL and evaluate the service's impacts. Moreover, it aims to emphasize the need to establish clear guidelines that strike a balance between the benefits of Buy Now, Pay Later (BNPL) services and effective regulations that prioritize consumer protection and economic stability. This approach aims to address and mitigate potential risks, advocates for clear and standardized disclosures, mandatory affordability assessments, and the integration of Buy Now, Pay Later (BNPL) transactions into credit reports. It proceeds with consumer awareness initiatives and continuous monitoring of market trends. In conclusion, this article provides analysis, insights, and recommendations for stakeholders to maximize the benefits of BNPL while mitigating its associated risks.*

**Keywords:** BNPL services, consumer finance, digital lending, financial regulation, e-commerce trends

## 1. Introduction

The global financial sector has experienced substantial transformation in recent years due to new and fast-evolving technology, which is affecting consumer preferences. Among these emerging financial innovations, Buy Now Pay Later (BNPL) services and associated platforms emerge, challenging the traditional credit market model by offering consumers flexible payment solutions and immediate purchasing power, free from the constraints of conventional lending. The BNPL services enable consumers to divide their purchase amount into manageable repayments, thereby enhancing their financial flexibility and accessibility to goods and services. This model appeals significantly to the younger demographic, those who are digitally aware and prefer seamless, transparent, and frictionless financial interactions.

The growth of Buy Now, Pay Later (BNPL) was remarkable, fueled by the development and growth of e-commerce, widespread smartphone usage, and a shift in consumer behavior toward digital and cashless transactions. Retailers have integrated buy-now, pay-later (BNPL) as a payment method, which has led to capitalizing and enhancing consumer engagement, resulting in higher conversion rates and increased average order values, and consequently reshaping retail dynamics and influencing consumer spending patterns.

While the service offers many advantages, its rapid expansion also brings critical challenges and potential risks. This growth highlights impulsive spending behavior that may lead to increased consumer debt levels, particularly due to unclear repayment structures. This article aims to provide an analysis of BNPL services by examining the historical growth,

consumer adoption, and trends, as well as the implications for consumer and retail financial health and the regulatory frameworks. Ultimately, this comprehensive examination aims to provide valuable insights and actionable recommendations that benefit all stakeholders.

This study is essential as it explores both the opportunities and risks of BNPL, providing a comprehensive view that combines financial, behavioral, and regulatory perspectives. The study uses a qualitative secondary research approach, drawing from data and insights gathered from authoritative financial reports, regulatory publications, and academic studies to critically analyze the economic, regulatory, and behavioral aspects of BNPL usage.

## 2. Literature Review

Industry experts have highlighted the effects of Buy Now Pay Later (BNPL) services on consumer financial well-being. This section aims to analyze the existing literature on Buy Now, Pay Later (BNPL), including its historical development, market growth, impact on consumers, regulatory concerns, and demographic trends. The goal is to provide a comprehensive, data-driven perspective on the evolution of BNPL services, their implications for consumers and businesses, and the current regulatory landscape that will shape their future.

### 2.1 Historical Context and Development

The existence of BNPL services and associated platforms and channels has significantly reshaped consumer finance behaviors, introducing new payment models that shift the focus from traditional credit systems (Ellis & Sanders, 2020).

The concept of deferred payment is not new; purchasing on installments dates back to the early 20th century when retail stores allowed customers to buy products on repayment plans (Loomis & Price, 2021). However, the contemporary and modern BNPL model has evolved through fintech innovation and digital integration, enabling consumers to make instant purchases with structured repayment plans (McKinsey & Company, 2023).

As observed, the demand for buy now, pay later (BNPL) services has grown significantly over the past decade. However, the primary factor that boosts this growth is the rise of digital commerce, fueled by advancements in artificial intelligence and machine learning (Deloitte, 2023). According to a report by McKinsey & Company (2023), the BNPL market aims to account for 15% of all global e-commerce transactions by 2027. The model's appeal lies in its ability to provide seamless financing at the point of sale, eliminating the need for complicated credit approval processes (European Central Bank, 2023).

### 2.1.1 Comparative Analysis of BNPL Growth in Different Regions

The service offers convenient repayment solutions for day-to-day purchases, thereby enhancing the service's expansion, which is well-received by users. According to published statistics by Statista (2023), the services of Buy Now, Pay Later (BNPL) in the U. S. and Canada have experienced significant growth, with companies such as Affirm and Klarna. The U. S. BNPL sector reported \$82 billion in transactions in 2023, and the trend is to reach \$124 billion by 2026.

In another region, the European market is not far from the case of North America since it has experienced significant growth in Buy Now, Pay Later (BNPL) services, particularly in countries like Germany and Sweden. According to statistics, in 2020, the service accounted for 23% of e-commerce transactions in Sweden and 19% in Germany.

The European market was one of the most regulated markets. However, the market continued to show growth. An insight into this effort is that the European Banking Authority (EBA) is actively examining consumer protection measures to prevent financial overexposure associated with BNPL services.

The Middle East and Africa (MENA) experienced growth, particularly in the UAE and Saudi Arabia. The BNPL market in the UAE is expected to grow at a compound annual growth rate (CAGR) of 22.4% from 2025 to 2033, reaching approximately USD 548.5 million by 2033. This growth is driven by regulatory support and high e-commerce penetration. The UAE's e-commerce market reached USD 1.88 billion in 2024 and is projected to grow to USD 10.96 billion by 2033, reflecting a remarkable annual growth rate of 21.58%.

The expected annual growth of BNPL services in Saudi Arabia is 13.5%, reaching USD 1.48 billion by 2025. Accordingly, the forecast indicates that the compound annual growth rate (CAGR) from 2025 to 2030 is 9.7%, resulting in a market value of USD 2.36 billion. This growth is driven by

the expansion of the e-commerce sector, which reached USD 1.88 billion in 2024 and is projected to continue growing, reaching USD 10.96 billion by 2033.

On the other side of the world, in Asia, buy now, pay later (BNPL) services are expanding rapidly in markets such as India and Southeast Asia, driven by the growth of the digital economy and a large underbanked population (Deloitte, 2023).

## 2.2 Consumer and Business Implications

The actual growth of Buy Now, Pay Later (BNPL) services has boosted consumer purchasing behaviors and their spending power, leading to a reevaluation of business strategies. As an added factor, it presents both significant advantages and challenges for stakeholders, including consumers, regulatory entities, and retailers. These services emerged as a popular alternative to traditional credit, providing consumers with increased purchasing power, greater financial flexibility, and improved market accessibility (Consumer Financial Protection Bureau, 2022).

There is no doubt about the service's growth, popularity, and clear benefits. The BNPL services uncovered and raised concerns about increased consumer debt, potential financial mismanagement, and gaps in regulatory oversight (Fast Company ME, 2023).

This section examines the implications of BNPL, highlighting its positive impacts, including financial inclusion, support for essential spending, e-commerce growth, and benefits to small businesses. It also addresses the psychological and behavioral effects that influence consumer spending patterns.

### 2.2.1 Positive Impacts on the Consumer

The Buy Now, Pay Later (BNPL) services have transformed consumer purchasing behaviors and provided several strategic advantages to businesses. Primarily, BNPL platforms enhance consumer purchasing power by offering structured installment plans, facilitating access to high-value goods and services that would be unaffordable financially (Synchro, 2023).

Additionally, BNPL services promote financial inclusion by providing access to credit for underbanked segments. This form of financing is particularly beneficial for younger segments who typically lack extensive credit histories, as well as individuals residing in emerging markets characterized by limited banking infrastructures (Fast Company ME, 2023). Moreover, the incorporation of Buy Now, Pay Later (BNPL) services has contributed to the expansion of e-commerce. Research indicates a significant decrease in cart abandonment rates and a corresponding increase in merchant conversion rates of approximately 20 - 30% when buy now, pay later (BNPL) is offered as a checkout option (Finextra, 2023).

### 2.2.2 Psychological and Behavioural Impacts of BNPL on the Consumer

The convenience and simplicity of BNPL services have implications for consumer psychology and purchasing behavior (PWC, 2023). The ease of access and immediate fulfillment associated with BNPL can significantly increase

uncontrolled purchasing and spending behavior. Research by PwC (2023) highlights that approximately 62% of BNPL users acknowledge making uncontrolled purchase transactions that they would not have otherwise made. Moreover, the structured installment approach is often associated with zero interest when using buy now, pay later (BNPL) services. By dividing payments into manageable installments, consumers may experience a partial and unreal sense of financial capability, thus increasing their likelihood of non-essential spending (Harvard Business Review, 2023). This perception may lead to spending behaviors that exceed actual financial capacities, creating potential risks for financial stability. Additionally, the excessive use of BNPL may increase the sense of normality surrounding debt, particularly among younger consumers. This demographic increasingly views debt as a standard financial tool rather than a potential liability. (Consumer Financial Protection Bureau, 2023).

## 2.2 Impacts of BNPL on the retailers and sellers

Retailers and sellers undoubtedly benefit from the service, but it also presents them with real challenges and potential risks. On the positive side, Buy Now, Pay Later (BNPL) solutions significantly increase average order values and overall sales volumes by lowering the upfront financial barriers for consumers. This encourages them to make larger or more frequent purchases. Data indicated that retailers experience an uplift in sales conversions, with BNPL availability correlated to a distinguished 20 - 30% improvement in conversion rates. (Finextra, 2023).

The advantage of repayment flexibility is that it promotes customer satisfaction and loyalty, encouraging repeat purchases and long-term customer retention. Additionally, BNPL options extend market reach by attracting consumer segments that were previously constrained by the need for immediate cash and payment. (Fast Company ME, 2023).

On the other hand, integrating BNPL services may bring operational and financial risks to retailers, necessitating continuous monitoring and management. The increase in customer defaults is a considerable concern, necessitating credit assessments, comprehensive risk management strategies, and robust credit control frameworks. Such financial risks necessitate that retailers invest in advanced risk mitigation systems and credit monitoring processes, which can potentially increase operational complexities. Furthermore, BNPL transactions typically involve merchant fees, which, although potentially offset by higher sales volumes, can negatively affect profitability, particularly for smaller businesses operating on narrower profit margins (Deloitte, 2023).

Thus, while BNPL services offer substantial opportunities for enhancing retail growth and market competitiveness, they also expose retailers to a prolonged cash flow cycle that requires maintaining cash reserves and implementing a more agile solution.

## 2.3 Regulatory and Legal Challenges and Implications

Globally, regulatory entities are continually examining and refining Buy Now, Pay Later (BNPL) services to establish regulatory frameworks that strike a balance between consumer benefits and sufficient protection while also responding to market demand and trends, thereby creating a win-win situation. Transparency regarding fee structure necessitates clear disclosures of interest rates, penalties, and hidden charges. This regulation enhances consumer understanding and promotes informed financial decision-making (Consumer Financial Protection Bureau, 2022).

Another regulatory consideration is the affordability assessments, which emphasize the need for conducting a financial health evaluation. Recent UK legislation mandates comprehensive affordability checks to ensure consumers' capability to sustainably repay loans without excessive financial strain (Financial Conduct Authority, 2022). Integrating Buy Now, Pay Later (BNPL) transactions into formal credit reporting mechanisms is also gaining attention. Regulators advocate for the inclusion of BNPL activity in credit scoring systems to promote greater accountability among consumers, enhance the accuracy of credit histories, and reduce the prevalence of risky borrowing practices (Ellis & Sanders, 2020).

Another significant area of regulatory concern is the standardization and regulation of late fees. Practices such as Australia's recent initiative to impose caps on late fees exemplify efforts to prevent unfair financial behaviors, safeguarding consumers from unjustifiable financial penalties (Reserve Bank of Australia, 2023).

While these regulatory interventions are positively aimed at protecting consumer interests, maximizing value, and ensuring sustainable market growth, they also pose particular challenges. Compliance with evolving regulatory requirements can introduce additional operational complexity and financial challenges for BNPL providers and their affiliated merchants, potentially impacting the speed of innovation and market responsiveness. Thus, policymakers face the continuous challenge of developing and implementing regulations that effectively mitigate risks without hindering market innovation and competitive growth.

## 3. Discussion & Results

### 3.1 Discussion

This article highlights the nature of Buy Now, Pay Later (BNPL) services, showcasing both the significant advantages and challenges they present for various stakeholders, including consumers, businesses, and regulators. BNPL services can enhance consumer purchasing power and promote greater financial inclusion, particularly among younger demographics. Additionally, BNPL platforms play a crucial role in the growth of e-commerce. With all these benefits, excessive use of BNPL, merged with a lack of awareness, might bring considerable psychological and behavioral risks, including affecting purchasing behaviors. Easy access to installment plans can distort perceptions of financial affordability, potentially leading to unsustainable

debt accumulation. Moreover, the normalization of debt, particularly among younger consumers, poses long - term threats to financial stability, creating unhealthy consumer behavior.

Retailers who integrated BNPL solutions into their businesses experienced commercial benefits, such as improved customer retention, increased average order values, and expanded market reach, particularly among digitally and financially underserved consumer segments. However, these advantages must be balanced against increased financial risks. The businesses must adopt sophisticated credit risk management frameworks and implement credit assessments to mitigate potential financial losses.

Regulatory frameworks have become increasingly important as buy - now - pay - later (BNPL) services expand. Regulatory entities globally emphasize the importance of transparency in fee structures, mandatory affordability checks, integration of credit reporting, and standardized caps on late fees. These regulations significantly enhance consumer protection, mitigate predatory lending practices, and encourage responsible borrowing behaviors.

### 3.2 Results

The findings of this research highlight the significant positive impacts of Buy Now, Pay Later (BNPL) services on consumer financial inclusion and e - commerce activities.

However, the results also emphasize considerable risks, including impulsive spending behaviors, distorted perceptions of affordability, and the normalization of debt, particularly among younger consumers. The absence of standardized regulatory frameworks increases these issues.

On the positive side, retailers that adopt buy now, pay later (BNPL) services experience improvements in consumer engagement, increased sales, and a broader target market. Nevertheless, these advantages come with financial risks, such as consumer default and operational challenges related to compliance with evolving regulatory measures.

### 3.3 Recommendations

Based on these findings, the following recommendations are proposed:

- 1) **Enhancing Transparency:** Regulatory authorities should enforce mandatory standardized disclosures on BNPL agreements to detail all associated and hidden fees.
- 2) **Mandatory Affordability Checks:** Introduce comprehensive affordability and capability assessments as prerequisites for BNPL credit approval, ensuring that consumers can effectively manage the repayment process.
- 3) **Integration with Credit Reporting:** Integrate BNPL usage into credit reporting frameworks to enhance consumer accountability and promote informed borrowing decisions.
- 4) **Regulation of Fees:** Establish clear regulatory caps on late fees and penalty charges to protect consumers from unaware financial practices.

- 5) **Enhanced Consumer Education and Awareness:** Initiate a program to educate consumers about responsible credit use, the implications of buy - now - pay - later (BNPL) financing, and effective debt management strategies.
- 6) **Collaborative Regulation:** Establish, optimize, and enhance collaboration between regulatory authorities, financial institutions, and BNPL providers to create balanced and adaptive regulatory frameworks.
- 7) **Strategic Risk Management:** Retailers and buy - now - pay - later (BNPL) providers should implement advanced risk assessment and management frameworks to proactively address potential defaults and financial risks.
- 8) **Continuous Monitoring:** Regularly monitor market dynamics, consumer behavior, and regulatory effectiveness to ensure regulatory frameworks remain adaptive and responsive.

## 4. Conclusion

In conclusion, this article provides an in - depth analysis of Buy Now, Pay Later (BNPL) services, systematically evaluating their impacts on consumer financial behaviors, retail operational practices, and evolving regulatory frameworks and authorities. The article identifies the expected benefits, including enhanced financial accessibility, improved economic activity, and improvements in e - commerce performance metrics, such as higher conversion rates and lower transaction rejection rates. However, the findings highlight the presence of challenges, including elevated risks to consumer financial stability through increased uncontrolled spending, distorted perceptions of affordability, and the normalization of debt, particularly among younger demographic segments.

To effectively address these risks, the study emphasizes the importance of adopting an integrated approach that includes transparency in fee structures and repayment obligations, affordability assessments, and the comprehensive integration of Buy Now Pay Later (BNPL) transactions into formal credit reporting systems. It also highlights the need for standardized regulations regarding late payment fees.

Furthermore, ongoing consumer financial education initiatives should be implemented to raise awareness and understanding of these issues. Collaboration among regulatory authorities, including policymakers, financial institutions, and fintech companies, is important for creating regulatory environments that strike a balance between innovation and consumer protection.

Retailers and buy - now - pay - later (BNPL) providers should establish robust risk management frameworks to mitigate financial risks and reduce the likelihood of consumer defaults.

Moreover, the research emphasizes the necessity of continuous monitoring and assessment of market dynamics, consumer behavior trends, and the effectiveness of regulatory interventions.



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