

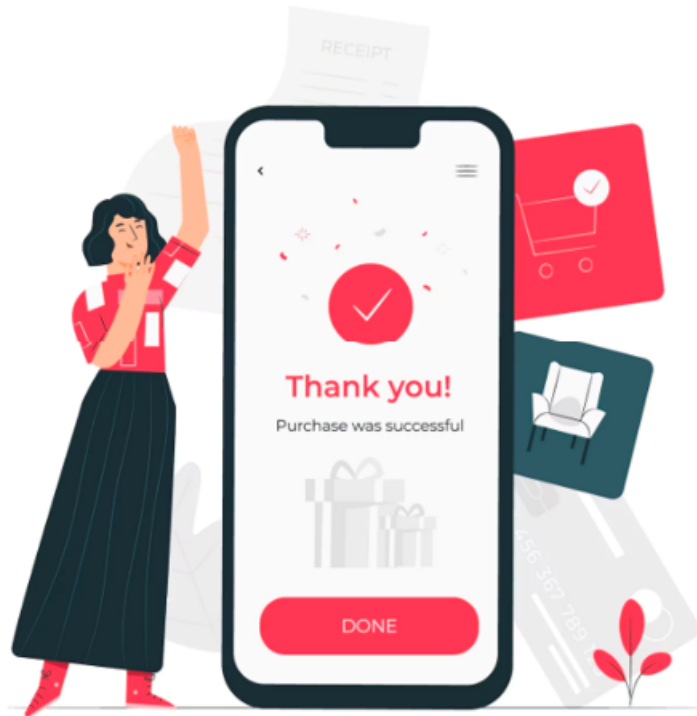


UK-India  
Trade in  
Fintech &  
Fintech-  
Enabled  
Services

UK-India Trade in Fintech & Fintech-Enabled Services

# Buy Now, Pay Later (BNPL): India – UK Comparison

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## Executive Summary

The Buy Now, Pay Later (BNPL) financial service has experienced rapid expansion, notably in the UK and India. BNPL allows consumers to defer payments for purchases, dividing them into interest-free instalments typically spanning four payments or fewer. This service has gained popularity for its convenience, helping consumers manage budgets and enhance purchasing power without accruing interest.

The swift growth of BNPL services has sparked regulatory concerns, especially regarding consumer debt and financial stability. Regulators in the UK, EU, US, and Australia are increasingly advocating stricter oversight.

Leading players in the BNPL market include Klarna, Afterpay, Affirm, and Zip, driving innovation and competition. The global BNPL market is expanding, with significant growth anticipated in Europe, Africa, and the Middle East. Strategic partnerships and fintech innovations are critical growth drivers, although heightened regulatory scrutiny and competition from traditional financial institutions present challenges.

**UK Perspective:** In 2020, the UK BNPL market surged to £2.7 billion, surpassing the peak volume of payday loans. The COVID-19 pandemic accelerated BNPL adoption, supporting consumer spending during economic difficulties and boosting average order values. The UK market continues to expand rapidly, driven by broader consumer adoption beyond luxury items, attracted by the flexibility and ability to spread costs over time. Major players such as Klarna, Clearpay, and Laybuy are expanding and forging strategic alliances to capitalize on market growth across all age groups.

**India Perspective:** In India, the BNPL market is poised to grow from USD 3.5 billion to USD 50 billion by 2026, propelled by increasing e-commerce activities, particularly among millennials. The pandemic accelerated BNPL adoption by 50% in 2020, with consumers appreciating its flexibility and transparency. Key players like Axio, ePayLater, and Slice are leveraging this growth, although regulatory challenges and potential consumer debt remain significant concerns.

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## Introduction

The Buy Now, Pay Later (BNPL) sector has experienced swift expansion, emerging as a favoured financial service in both the UK and India. This payment method enables consumers to make purchases and defer payments over time, often without incurring interest, which has greatly enhanced its appeal. In the UK, BNPL lending surged to £2.7 billion in 2020, surpassing traditional payday loans. In India, the BNPL market is expected to grow from USD 3-3.5 billion to USD 45-50 billion by 2026. This growth is driven by the convenience of deferred payments and the increasing popularity of e-commerce, fueled by technological advancements and rising smartphone usage. Despite its benefits, including improved purchasing power and convenience, BNPL services carry risks such as potential debt accumulation and insufficient consumer awareness of associated costs.

The BNPL landscape is influenced by various factors, including regulatory scrutiny and market dynamics. While regions like Australia have seen rapid BNPL growth with minimal regulation, others are beginning to implement measures to address consumer protection concerns. The UK's Financial Conduct Authority (FCA) is particularly focused on ensuring BNPL providers adhere to responsible lending practices. Market competition is also intensifying, with traditional banks and global tech firms entering the BNPL space, potentially impacting the profitability and market share of existing players. The sector's future will likely be shaped by evolving regulations, investor sentiment, and the ongoing balance between consumer benefits and financial risks.

In both the UK and India, BNPL services are growing significantly, driven by increasing consumer adoption and seamless integration with e-commerce. These markets offer substantial potential for BNPL expansion, as the convenience and accessibility of deferred payment options appeal to a broad range of consumers. The rise of e-commerce further amplifies this trend, making BNPL services an integral part of the shopping experience by providing flexible payment solutions that cater to diverse consumer needs.

However, this growth comes with challenges. The BNPL landscape is becoming increasingly competitive, with traditional financial institutions and fintech startups competing for market share. Established banks and credit card companies are entering the BNPL arena, leveraging their regulatory expertise and customer bases, while fintech innovators are introducing new features and flexible payment options. Additionally, regulatory scrutiny is intensifying as

governments implement stricter rules to protect consumers, potentially affecting operational flexibility and profitability. Market consolidation also poses a threat, with larger players acquiring smaller firms, further altering the competitive dynamics. As the BNPL sector evolves, understanding these opportunities and challenges is crucial for stakeholders aiming to navigate and succeed in this rapidly changing landscape.

## Overview of Buy Now, Pay Later (BNPL) Services

BNPL services have surged in popularity in recent years, especially in the United Kingdom and India. This paper offers a comprehensive analysis of the BNPL industry within these two countries, exploring the current market landscape, key players, regulatory perspectives, opportunities, challenges, investment potential, government initiatives, and future outlook.

BNPL is a relatively unregulated FinTech credit product that enables consumers to defer payments interest-free, typically over a few instalments, often four or fewer. In 2020, the UK BNPL market reached £2.7 billion in lending, outpacing the peak volume of the UK payday loan market. The rapid expansion of BNPL services has prompted regulatory bodies in the UK, EU, and US to consider implementing stricter regulations, while Australia has already taken regulatory action.

Despite its significant growth, academic research on BNPL remains limited due to insufficient data visibility in credit files. This study, based on UK credit card transaction data, investigates BNPL usage patterns, highlighting that younger consumers and those from disadvantaged areas are more likely to use BNPL through their credit cards, potentially leading to debt accumulation. This trend raises concerns about the potential risks of allowing consumers to refinance unsecured debt (Guttman-Kenney, 2023).

BNPL vs credit cards: typical features			Table 1
	Buy now, pay later	Credit card	
Nature of credit	Typically, short-term credit for a specific purchase and limited amounts.	Revolving line that can be used for multiple transactions up to a limit.	
Credit checks	Usually, "soft" credit checks. Late payments do not affect credit score; severe delinquencies may.	"Hard" credit check. Repayment history affects the credit score.	
Instalments	Depending on the platform and the purchase amount: eg 4, 6 or 12.	Monthly minimum, full balance or any amount in between.	
Fees and interest	Generally, interest-free instalments for the set repayment period. Late fees and interest apply.	Interest on carried balances after the grace period. Also: annual fees, cash advance fees etc.	

Table 1: BNPL Vs Credit Card Snapshot (Cornelli et. al., 2023)

In the twenty-first century, technology has dramatically transformed consumer payment options, evolving from traditional methods like cash and cheques to encompass credit, charge, and debit cards. Digital payment systems have further streamlined transactions for consumers. While credit cards have long been a staple for deferred payments, Buy Now, Pay Later (BNPL) services are increasingly taking their place. This shift has been accelerated by the COVID-19 pandemic, which strained purchasing power and drove a surge in e-commerce. BNPL provides short-term, interest-free borrowing, enabling consumers to make purchases they might otherwise delay. This not only supports consumers during economic challenges but also boosts average order values for online retailers. The widespread availability of internet access and smartphones has further fuelled BNPL's growth. For example, in India, the BNPL market is projected to expand from USD 3-3.5 billion to USD 45-50 billion by 2026. This study examines consumer perceptions of BNPL, including their motivations for using it and the challenges they encounter, emphasizing how BNPL enhances purchasing power and influences buying behaviour, particularly within the rapidly growing e-commerce sector (Sengupta et al., 2022).

BNPL arrangements represent a Fintech innovation centered on responsible spending, offering interest-free instalment loans as a cost-effective alternative to credit cards. Although BNPL is popular, especially among tech-savvy Generation Z, it currently lacks sufficient regulation to safeguard consumers. The growth of BNPL has been driven by advanced technology and increased smartphone use, establishing it as a favored payment method in e-commerce. Despite its advantages, such as enhanced consumer satisfaction and efficiency, BNPL presents cybersecurity risks and necessitates appropriate legislative oversight. This study aims to explore BNPL's representation in literature, its market impact, and future adoption trends. Findings suggest that BNPL's popularity is not significantly influenced by internet accessibility or e-government development. The research underscores the need for a regulatory framework to ensure consumer protection and promote sustainable financial practices (Luþsa-Tătaru et al., 2023).

## **BNPL Step-by-Step Process**

BNPL services operate by allowing consumers to purchase goods and services and defer payment through instalment plans. Below is a detailed breakdown of how BNPL works.



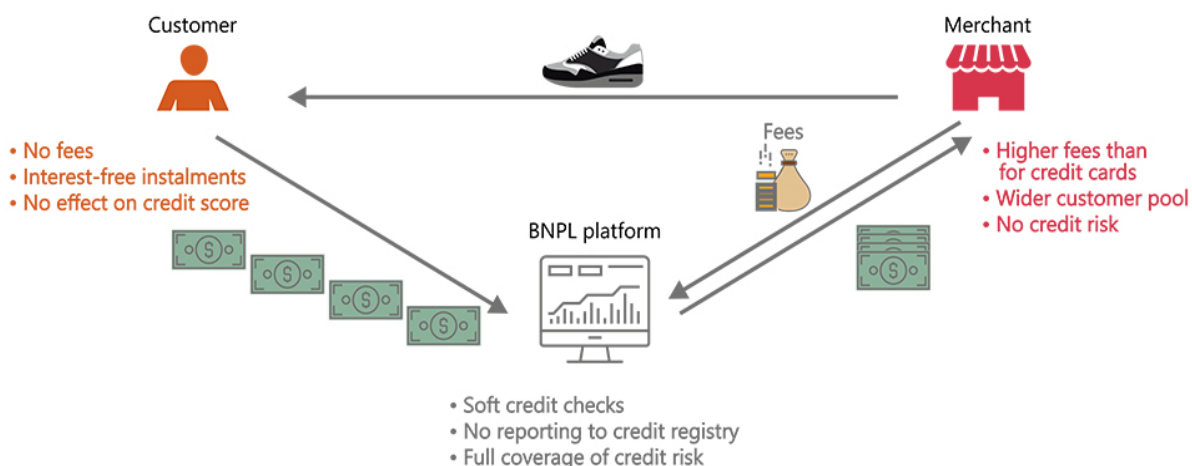


Figure 1: BNPL Step-by-Step Process (Cornelli et. al., 2023)

### 1. Choosing BNPL at Checkout

When making a purchase online, consumers select BNPL as their payment method at the checkout page. BNPL options are often displayed alongside traditional payment methods like credit cards and PayPal. In physical stores, consumers can choose BNPL if the retailer partners with a BNPL provider. This might involve using a mobile app to generate a virtual card or scanning a QR code.

### 2. Approval Process

BNPL providers typically perform a quick credit check or risk assessment. This process is usually automated and completed within seconds. Most BNPL providers use a soft credit check, which does not affect the consumer's credit score. Some may not check credit scores at all, relying on other data points.

### 3. Payment Plan Selection

Consumers choose a payment plan, which commonly involves making equal payments over a set period, such as four bi-weekly instalments. The first instalment is often required at the time of purchase, acting as a down payment.

### 4. Purchase Completion

Once approved, the BNPL provider pays the retailer for the purchase, and the consumer's order is confirmed. The retailer ships the product to the consumer, as with any other purchase.

### 5. Repayment Process

Payments are usually deducted automatically from the consumer's linked bank account or charged to their credit card on the agreed dates. BNPL providers often send reminders before each payment is due to help consumers stay on track.

## Key Features of BNPL

BNPL plans offer interest-free periods if payments are made on time. However, some plans may charge interest, especially for longer-term financing options. If a payment is missed, BNPL providers often impose late fees, with terms varying by provider. The duration of BNPL plans can range from a few weeks to several months, depending on the provider and the purchase amount.

1. BNPL simplifies and broadens shopping accessibility for consumers.
2. BNPL provides short-term financing by allowing payments in instalments without interest or fees within a specified period.
3. With BNPL, consumers can avoid interest charges altogether or incur them only if the payment plan extends beyond the interest-free period, offering greater flexibility and potential cost savings.
4. BNPL operates through partnerships between merchants, aggregators, and payment service providers, giving consumers a more flexible payment option.

**E-commerce transactions accounted for 20% of global retail sales**

**Global e-commerce transactions in 2022 amounted to USD 6 trillion**

**Global BNPL transaction value accounted for 5% of total e-commerce transaction value in 2022**

**Global BNPL transactions amounted to USD 300 billion in 2022**

Figure 2: E-Commerce Industry Snapshot (Source: Twimbit)



## **Benefits to Consumers**

BNPL services offer several advantages for consumers, including interest-free instalment plans that simplify budgeting and make purchases more manageable. By allowing payments to be spread out over time without incurring additional costs, BNPL makes larger or unexpected expenses more affordable. The quick and straightforward approval process also provides access to credit for individuals who might not qualify for traditional credit cards, thereby enhancing both purchasing power and convenience (Sengupta et al., 2022).

## **Benefits to Retailers**

For retailers, BNPL services boost sales and improve customer conversion rates by making high-value purchases more accessible. Integrating BNPL at checkout can reduce cart abandonment and attract a wider customer base, including those hesitant to pay upfront. Additionally, BNPL can increase the average order value, as customers are more likely to add extra items when they know they can pay in instalments. This flexibility can also enhance customer satisfaction and loyalty, encouraging repeat business.

## **Drawbacks and Considerations**

Despite its advantages, BNPL has potential drawbacks. Easy access to credit can lead to impulsive purchases and overspending. Consumers who use multiple BNPL services may struggle to keep track of payments, which can result in debt accumulation. While many BNPL providers do not report to credit bureaus, some do, and missed payments can negatively impact credit scores.

In summary, BNPL services offer a flexible and convenient payment method that benefits both consumers and retailers. However, consumers should use BNPL responsibly to avoid potential financial pitfalls and ensure they manage their payments effectively.

## **5 BNPL Business Models**

### **BNPL-as-a-Service**

The BNPL-as-a-Service model enables businesses to seamlessly integrate BNPL functionality into their existing platforms through third-party providers. This approach offers flexibility and

convenience, allowing retailers to provide instalment payment options without having to develop the necessary infrastructure themselves. By partnering with BNPL service providers, businesses can enhance their payment offerings, attract more customers, and boost sales, while leaving the complexities of credit assessment and payment management to specialized firms.

- **Embedded BNPL** is gaining traction as it allows financial institutions to offer BNPL options directly through merchants' websites and apps.
- BNPL-as-a-Service is a model that lets merchants provide BNPL financing to their customers without needing to create their own BNPL platform.
- Banks can deliver these solutions via APIs, enabling merchants to integrate BNPL into their checkout process with minimal effort.
- Banks and other BNPL providers can earn commissions on each BNPL transaction processed.
- This model presents a significant opportunity for revenue growth for banks and BNPL providers in the market.

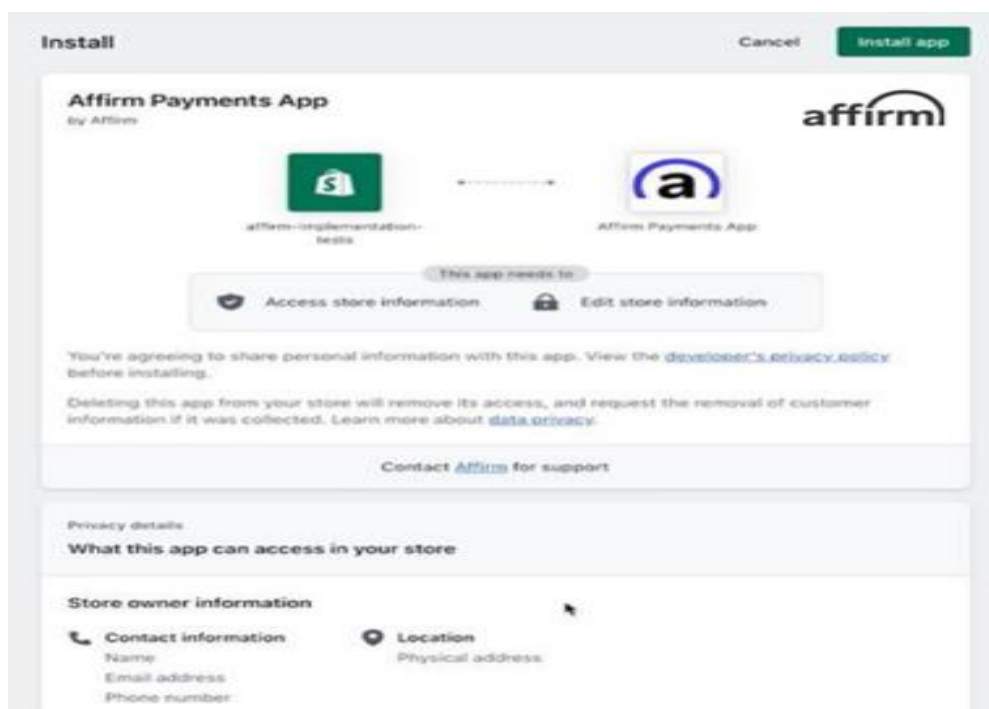


Figure 3: Affirm Platform Integration Tools (Affirm Payments App)

### Card-Linked Financing

Card-Linked Financing, a component of BNPL services, enables consumers to connect their credit or debit cards directly to BNPL platforms, streamlining the process of making instalment payments. This integration simplifies transactions, allowing users to utilize their existing cards without having to set up new accounts or manage separate billing systems. By offering a familiar payment method alongside flexible financing options, card-linked BNPL enhances user convenience and encourages wider adoption, ultimately improving the shopping experience.

- **Prevalent Form of POS Financing:** This feature is commonly used in point-of-sale (POS) financing with credit cards.
- **Flexible EMI Options:** BNPL services now enable users to convert regular purchases into 0% EMI (Equated Monthly Installments), often applied to high-ticket items and sometimes accompanied by reward points or merchant subsidies.
- **Enhanced Consumer Control:** Card-linked BNPL provides greater control by accommodating transactions at pre-purchase, purchase, and post-purchase stages.

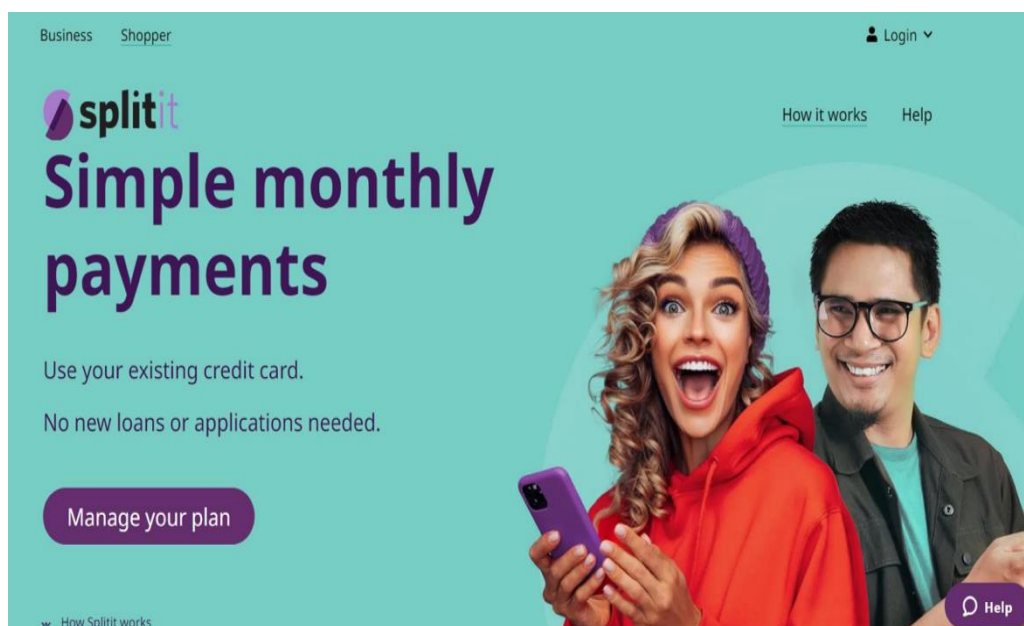


Figure 4: Splitit as Example of Card Linked Financing (Splitit)

## Off-Card Financing Solution

Off-Card Financing Solutions within BNPL schemes offer consumers instalment payment options that are independent of their existing credit or debit cards. Instead of using a current card, consumers set up a new, dedicated account with the BNPL provider, which allows for

more flexible and customized financing plans. This alternative is particularly appealing to those who prefer not to use their credit cards or lack access to traditional credit lines, making it easier to manage payments and afford larger purchases.

- **Flexible Financing Terms:** Unlike card-linked financing, off-card solutions often offer 0% APR for the initial few months, followed by a subsidized Annual Percentage Rate (APR).
- **Applicability to Larger Purchases:** These solutions are typically used for high- to mid-ticket items with lower purchase frequencies, such as furniture, home improvement goods, fitness equipment, and travel services. Instalment periods generally range from 6 to 10 months.
- **User Demographics:** Off-card financing is commonly utilized by individuals with high credit scores, resulting in a lower risk of default compared to other financing products.
- **Merchant Benefits:** Merchants experiencing high cart abandonment rates and substantial customer acquisition costs may offer off-card financing to encourage purchases without significantly impacting consumers' cash flows.

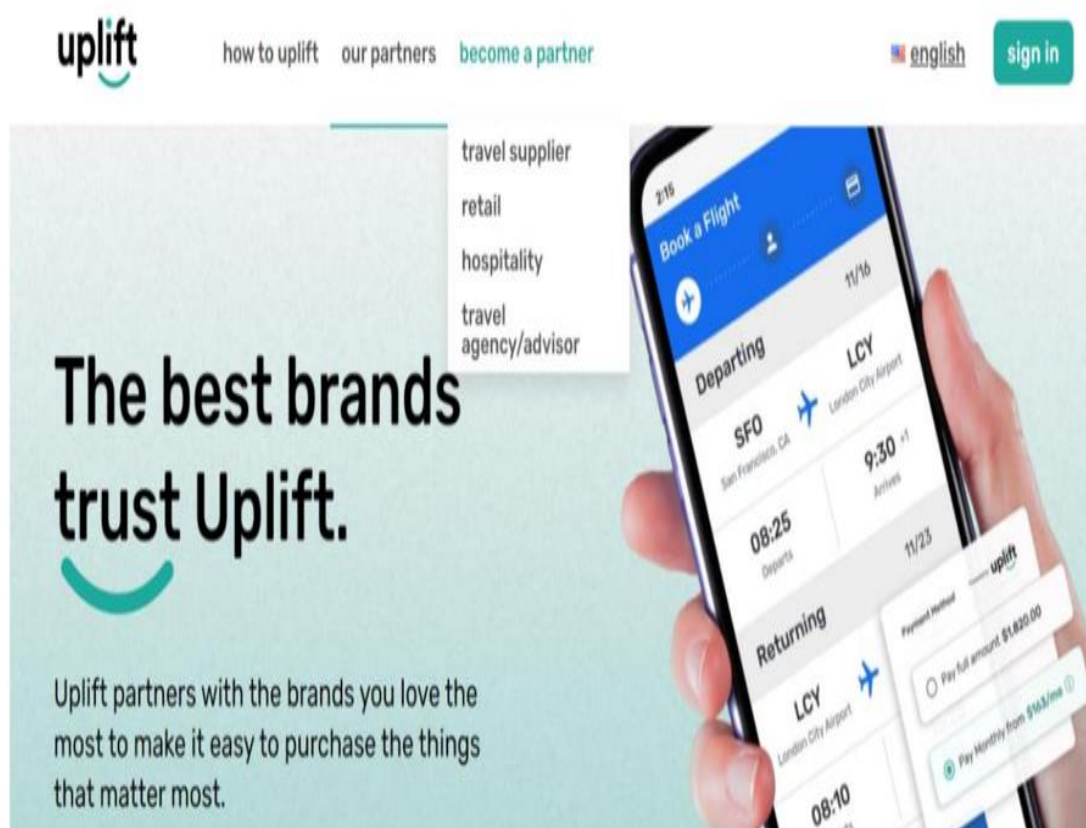


Figure 5: Uplift as Example of Off-Card Financing Solution (Uplift)

## Rent-to-Own Model

The Rent-to-Own model, a feature of BNPL schemes, allows consumers to lease products with the option to purchase them at the end of the rental period. This model enables customers to make smaller, manageable payments over time while using the product immediately. If they continue making payments throughout the lease term, they will eventually gain ownership of the item. This approach offers an accessible route to ownership for consumers who may not have the upfront funds for a full purchase, combining the flexibility of rentals with the long-term benefits of ownership.

- **Accessible Credit for Low Credit Scores:** This model is particularly advantageous for consumers with low credit scores, as it provides an opportunity to acquire items they wish to own despite limited credit options.
- **Ownership Transfer:** Consumers receive the item on the day of the transaction, but ownership remains with the service provider until all instalments are completed. Upon full payment, ownership is transferred to the consumer.
- **Interest Rates and Market Potential:** The Rent-to-Own model typically does not offer 0% APR; instead, it charges interest rates ranging from 1% to 5%. Given that approximately 95% of users have credit scores below 700, and around 70% have scores below 600, this model holds significant potential for reaching an underserved market.

## Vertical-Focused Large Ticket Size Financing

Vertical-Focused Large Ticket Size Financing within BNPL schemes targets specific industries or high-value purchases, such as electronics, furniture, or medical expenses. This approach enables consumers to manage substantial expenditures through tailored instalment plans designed for particular verticals. By offering specialized financing options for large-ticket items, businesses can appeal to customers who might be deterred by the upfront costs, thereby increasing sales and enhancing customer satisfaction with a flexible payment solution that addresses the distinct needs of various market segments.

- **Evolution of BNPL Financing:** Originally designed for small to mid-ticket purchases with high frequency, BNPL has expanded into financing vertical-specific high-value transactions due to its efficient model and growing popularity.



- **Range and Industries:** Transactions in this model typically range from USD 2,000 to USD 50,000 and are prevalent in high-ticket sectors such as green energy, healthcare, and home improvement.
- **Partnership Opportunities:** Banks can collaborate with major operators or equipment manufacturers to achieve high volumes and maintain viable profit margins.
- **Market Strategy:** To implement this model successfully, banks must carefully assess their target markets and develop robust go-to-market strategies, as competition in this space increases with the entry of various BNPL operators.
- **Ease of Use:** The convenience of signing up and using BNPL services through mobile apps is a significant driver of adoption.

## BNPL Global Outlook

Globally, the BNPL market is experiencing significant growth, driven by its convenience and flexibility. This payment method, allowing consumers to defer payments without incurring interest, has gained popularity across various demographics and regions. The market is expanding rapidly in regions like Europe, Africa, and the Middle East, fuelled by rising consumer credit demand and the increasing adoption of digital payment solutions.

No.	Metrics	Global	APAC	North-America	Europe and UK	Others
1	Population	7,974.9 Mn	4,385.7 Mn	369.7 Mn	523.0 Mn	2696.5 Mn
2	Banked population (%)	71	76	97	96	-
3	Online population	6,551.1 Mn	2,601.9 Mn	340.1 Mn	444.0 Mn	3165.1 Mn
4	B2C e-commerce market size (\$US bn)	6,000	2,664	1,601.1	933.3	801.6
5	E-commerce as % of total retail	24	29	16	17	-
6	E-commerce spending per capita (\$US)	803	739	4,338	1,930	-
7	Credit card penetration (%)	27	29	70	47	-
8	BNPL transaction value as % of total e-commerce transaction value in 2022(%)	5	4	5	10	-
9	BNPL transactions by value(\$US bn)	300	106	80	93.3	-
10	BNPL expected transaction value as % of total e-commerce transaction value by 2026 (%)	6	4	7	11	-

Table 2: E-Commerce Global Snapshot (Source: Twimbit)

Fintech innovations and strategic partnerships are further propelling growth, while regulatory frameworks are evolving to ensure consumer protection and industry stability. Overall, the global BNPL market is poised for robust expansion, with substantial contributions from both developed and emerging markets.



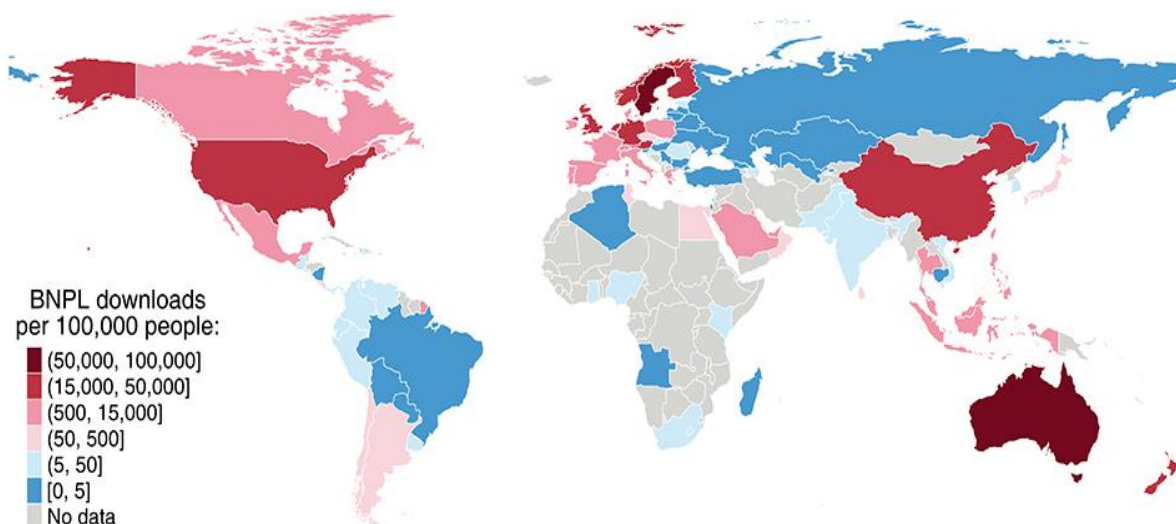


Figure 6: BNPL Popularity Across the World (Cornelli et. al., 2023)

## Case of Europe

BNPL market in Europe is poised for substantial growth, with projections indicating it will reach a market size of USD 543 billion by 2026. Expected to see an annual increase of 15.2%, the market is set to grow to USD 219.2 billion by 2024, and continue expanding at a compound annual growth rate (CAGR) of 10.1% from 2024 to 2029, reaching USD 354.3 billion. This expansion is driven by increasing adoption across various age groups, despite challenges such as rising interest rates and inflation.

Companies like Marqeta and Scalapay are advancing through strategic partnerships, while Klarna is exploring in-store collaborations. Conversely, some providers, such as Zip and Clearpay, have exited several markets, which presents opportunities for new players. In the UK, inflation has prompted more consumers to turn to BNPL for essential purchases, leading to increased usage and delinquencies. In Italy, BNPL startups are actively raising funds and forming partnerships to address the growing demand, further fueling market growth (Research & Markets, 2024). Sweden leads globally in BNPL e-commerce payments with a 24% market share, followed by Germany and Norway with 23% and 18%, respectively. Overall, Europe and the UK are among the largest adopters of BNPL services.

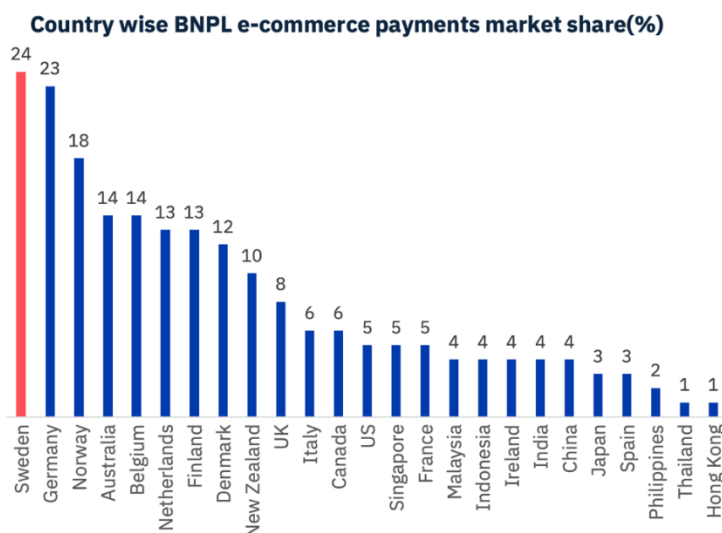


Figure 7: Country-wise BNPL Payments Market Share (%) (Source: Twimbit)

### Case of Africa

BNPL payments in Africa are projected to grow by 22.4% annually, reaching USD 15.5 Bn in 2024, with a CAGR of 16.1% from 2024 to 2029, increasing the gross merchandise value from USD 12.6 Bn in 2023 to USD 32.6 Bn by 2029. The market's growth is driven by rising credit demand among diverse age groups, particularly in unbanked and underbanked populations. Key players like Tabby and Tamara are raising significant capital to expand and innovate. Strategic partnerships, such as PayJustNow with Makro in South Africa, are widening BNPL's distribution. Regulatory activities are intensifying, with new regulations in the UAE and Saudi Arabia to ensure sustainable growth and consumer protection (Research & Markets, 2024).

### Case of United States of America

BNPL will account for around 6% of the total e-commerce transaction value across the globe by 2026. Sweden has emerged as the global market leader. The U.S. Buy Now Pay Later (BNPL) market was valued at USD 1.64 billion in 2022 and is projected to grow at a CAGR of 24.3% from 2023 to 2030. The market's popularity stems from the convenience it offers, allowing consumers to spread payments over time. This appeals particularly to Millennials and Gen Z, who prefer alternatives to credit cards and debt. The growth is further fueled by competition from fintech startups and partnerships with traditional lenders. Regulatory support from the Consumer Financial Protection Bureau has enhanced consumer trust. However, the potential for increased debt due to unclear terms remains a concern, emphasizing the need for transparency and education (Custom Market Insights, 2024; Grand View Research, 2022).



Figure 8: US BNPL Market Growth (Source: Grand View Research)

The BNPL sector is thriving in the US due to high consumer demand for short-term, unsecured credit, which has shifted from traditional credit cards to BNPL platforms offering instalment loans with favourable terms such as minimal credit checks, zero interest, and low fees. This has led to significant consumer adoption, with nearly 60% of US adults using BNPL by March 2021. Merchants also favour BNPL despite higher fees because it boosts sales and spending. BNPL facilitates increased spending and consumption smoothing, though it may lead to overspending and financial challenges for some consumers. Additionally, BNPL's limited credit bureau reporting makes it attractive to users concerned about credit scores. However, the sector faces regulatory scrutiny over consumer protection issues, highlighting both widespread appeal and potential risks involved (Di Maggio et. al., 2022).

### Case of Australia

The BNPL sector in Australia has seen rapid growth, with over 6 million users and more than 50,000 merchants by 2020, accounting for nearly 30% of the adult population. This growth, driven by the ability to pay in instalments without interest, surged by 34% from 2021 to 2022. The sector remains unregulated under the National Consumer Credit Protection Act, leading to concerns from regulators and consumer groups about financial risks, especially for younger users with limited financial experience, as per Powell et. al. (2023).

The paper suggests that responsible financial behaviours, such as careful reading of terms, planning purchases, and avoiding impulsive buying, can enhance financial wellbeing. However, younger users are less likely to adopt these behaviours, increasing their risk of

financial difficulties. Calls for regulation are intensifying to offer better consumer protection and mitigate potential financial stress associated with BNPL usage.

## Growth Drivers for Consumer Adoption

1. Convenience and flexibility - Attracts Gen Z and Millennials with its payment splitting option, removing the need for upfront payment and offering an enhanced shopping experience.
2. Financial empowerment and control - Offers transparency, helping users avoid credit card debt and enabling better budget management, fostering financial responsibility and informed decision-making in their purchases.
3. Enhanced user experience - Excel in delivering experiences focused on integrability, intuitive UX design, appealing visuals, and providing end-to-end CX journeys.
4. Accessibility and inclusion - Offers a more inclusive approach, allowing individuals to access desired products, promoting financial inclusion for underserved communities.

**Global transaction value of BNPL in e-commerce (USD Billion)**

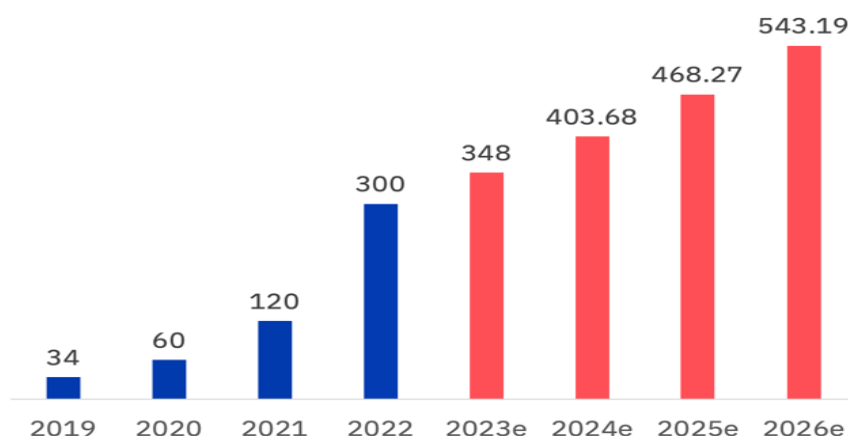


Figure 9: Global Transaction Value of BNPL (USD Bn) (Source: Twimbit)

## Major Market Players in BNPL Industry

BNPL industry features several major market players who have significantly influenced its growth and adoption globally. Key companies include Klarna, Afterpay, Affirm, and Zip. Klarna, based in Sweden, is one of the largest BNPL providers, known for its strong presence in Europe and the U.S. Afterpay, an Australian firm, has been a pioneer in the sector and is particularly popular in Australia and North America. Affirm, based in the U.S., is renowned for its transparent and flexible payment options. Zip, also from Australia, has expanded rapidly

across various international markets. These companies are driving innovation and competition in the BNPL space, continually enhancing their offerings to meet evolving consumer demands.

1. Klarna has more than 140 million active users, the provider is trying to break into every retail category, with the most even distribution; 7 marketplaces, 7 fashion retailers, 2 beauty & consumer electronics, 1 in home & garden and groceries
2. Afterpay has 19 million active users and excels as a fashion retailer as female consumers aged between 25 and 34 years old make over a fifth of its user base.
3. Affirm has a consumer base of 16 million active users and has the higher share of users aged 45 and plus, 16% vs 12% on average. It is also strong in the consumer electronics category.

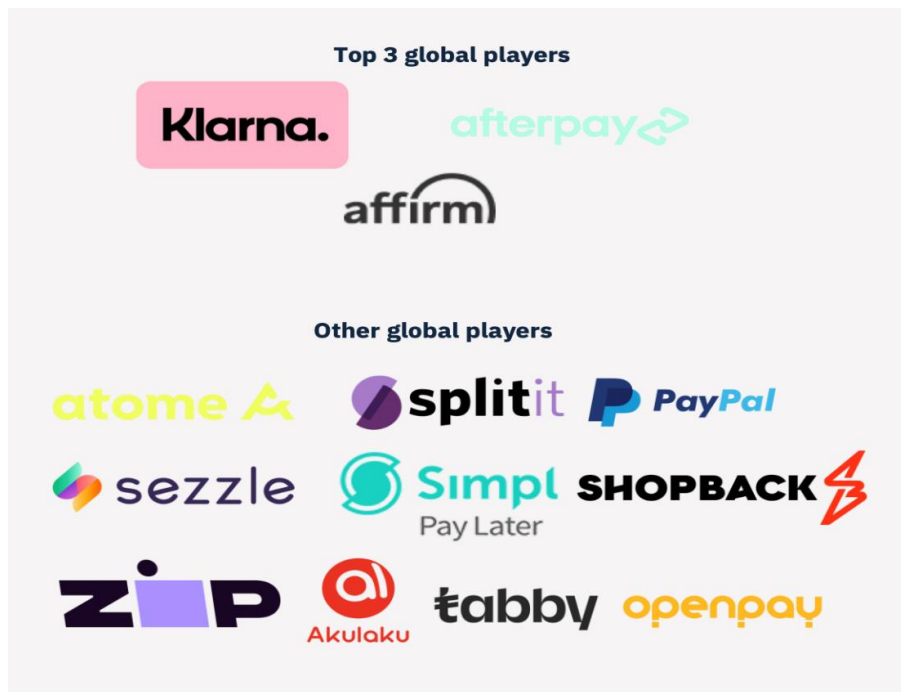


Figure 10: Major Players in the BNPL Sector (Clere, 2023)

## Recent Industry Opportunities and Challenges

### Opportunities

1. Market Growth: Both the UK and India offer substantial growth opportunities as BNPL services continue to expand.
2. Consumer Adoption: The convenience and accessibility of BNPL options make them appealing to a wide range of consumers.
3. E-commerce Integration: Integration with e-commerce platforms provides a seamless shopping experience.

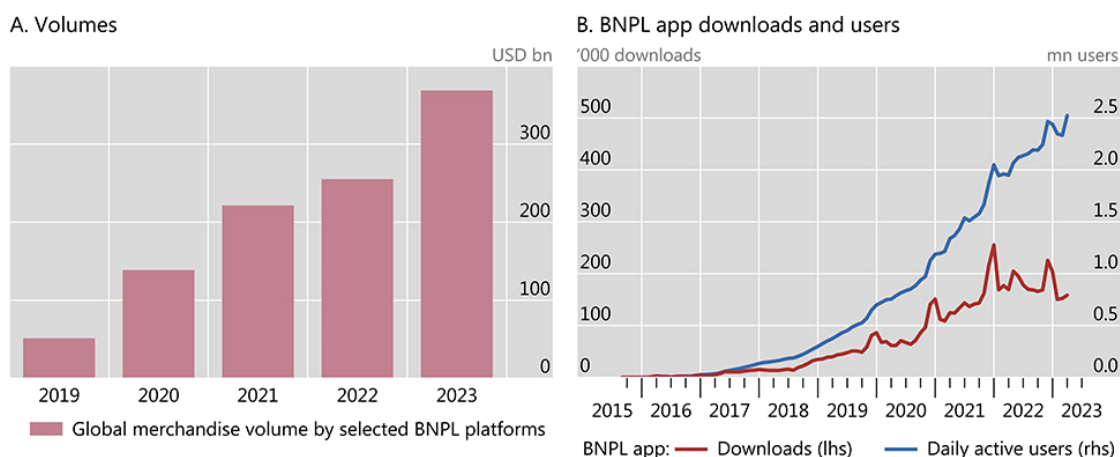


Figure 11: BNPL Volume & Usage Growth (Cornelli et. al., 2023)

### Competitive Threats and Disruption

The BNPL sector is facing competitive threats and disruptions from several fronts. Traditional financial institutions, including banks and credit card companies, are entering the BNPL space, leveraging their established customer bases and regulatory expertise. Fintech startups continue to innovate rapidly, introducing new features and more flexible payment options that challenge existing BNPL providers. Additionally, regulatory scrutiny is increasing, with governments implementing stricter rules to protect consumers, which could impact operational flexibility and profitability. Market consolidation is also a potential disruptor, as larger players acquire smaller firms, intensifying competition and altering the competitive landscape.

- A surge in competition with numerous players vying for market share
- In 2022, Afterpay was acquired by Block Inc., highlighting the consolidation trend in the BNPL space.
- Apple launched "Apple Pay Later" in partnership with Goldman Sachs, allowing users to make BNPL purchases through their Apple Wallet.
- Increased competition has led to irresponsible lending behaviour amongst the market players resulting in profitability challenges and a liquidity crunch in the market
- Affirm's decision to cease operations in Australia since February 2023 is indicative of the heightened competition in the BNPL market.

### Restricted Regulatory Environment to Freely Market and Operate BNPL Products

The BNPL sector is increasingly operating within a restricted regulatory environment, impacting its ability to market and operate freely. Governments and financial regulators worldwide are implementing stricter rules to protect consumers from potential financial pitfalls



associated with BNPL schemes. These regulations often include requirements for clearer disclosure of terms, caps on late fees, and stringent licensing requirements for providers. Such regulatory constraints can limit the agility of BNPL companies, increase compliance costs, and reduce marketing flexibility, thereby influencing their growth strategies and market expansion efforts.

The second machine age, starting around 1982, has significantly disrupted industries through digital advancements, notably impacting the finance sector due to its quantitative nature. This disruption is driven by miniaturization and cost reduction in computing, enabling algorithmic financial products with minimal human involvement. Fintech companies emerged by leveraging technologies like data processing and telecommunications. Definitions of fintech vary, with some considering it as any technology-driven financial innovation, although what is deemed "fintech" evolves over time. Regulatory scrutiny of fintech, especially in rapidly growing areas like BNPL (Buy Now Pay Later) services, has increased due to concerns over consumer harm and inadequate protections. Johnson et. al. (2021) reviews the regulatory landscape and highlights the potential for significant consumer detriment in the BNPL sector if proactive measures are not taken.

An overview of recent improvements in regulatory environment with regards to the BNPL sector from all over the world is as below.

<b>India</b>	The RBI guidelines restrict non-banking institutions from using credit lines and issuing prepaid payment instruments, impacting the expansion of the BNPL industry
<b>Australia</b>	BNPL providers must obtain Australian Credit Licences, adhere to Responsible Lending Obligations, meet dispute resolution and hardship requirements, and the apps must comply with the National Consumer Credit Protection Act 2009
<b>United States of America</b>	Anticipated US BNPL regulations by the CFPB may align BNPL with traditional credit companies and limit data harvesting and leverage from customers
<b>United Kingdom</b>	Financial Conduct Authority (FCA) regulates BNPL providers under the Consumer Credit Act 1974. BNPL providers must be authorized by the FCA and comply with responsible lending requirements. The FCA also emphasizes transparency, affordability assessments, and clear communication with consumers

<b>European Union</b>	The European Commission plans to include BNPL under the Consumer Credit Directive. It has finalized regulatory framework in late 2022, awaiting full implementation
<b>Peoples Republic of China</b>	There is no direct regulation for BNPL products, digital finance platforms offering interest-free short-term financing similar to BNPL are being strictly regulated by the government
<b>Singapore, Malaysia, and Hong Kong</b>	While the industry in these countries is self-regulated, the respective monetary authorities (MAS, HKMA) and central bank (BNM) keep a close eye on the providers. Providers must comply with licensing requirements and consumer protection measures to operate in these markets

Table 3: BNPL Regulatory Improvement Snapshot (Source: own work)

The need for responsible lending, which is underpinned by new regulation already in effect in several regions and impending regulation in other markets, will drive change in the industry.

### Macro-Economic Factors Affecting the BNPL Market

Macro-economic factors significantly impact the BNPL market. High inflation rates and rising interest rates can strain consumers' disposable income, potentially reducing their ability to make timely payments on BNPL purchases. Economic downturns and increased unemployment rates may also lead to higher default rates, posing risks to BNPL providers. Conversely, in periods of economic growth and increased consumer spending, the BNPL market can experience accelerated adoption as consumers are more likely to leverage instalment payment options. Additionally, shifts in consumer confidence and spending habits play a crucial role in the demand for BNPL services (Aidala, 2024).

- **Rising cost of credit:** increasing interest rates can raise the cost of providing credit to consumers, impacting provider margins and potentially leading to higher fees for customers.
- **Default risks:** less mature underwriting models may lead to higher default rates, posing financial risks for BNPL providers and necessitating better risk management practices.
- **Funding challenges for smaller providers:** tighter margins and increased credit risks can present challenges for smaller BNPL providers to secure funding for credit offerings.

## BNPL Outlook in United Kingdom

In the UK, consumers are increasingly using BNPL services not just for luxury items but also for everyday purchases, including groceries and electronics. There's a preference for interest-free or low-interest options, and BNPL providers often compete by offering attractive terms. The convenience and ability to spread costs over time appeal to consumers.

The outlook for BNPL services in the United Kingdom is positive, driven by increasing consumer adoption amid economic challenges. As inflation pressures household incomes, more consumers are turning to BNPL schemes for managing their expenses, including everyday purchases like groceries. This trend is particularly pronounced among younger generations but is spreading across all age groups. Despite the potential for financial instability and increased debt for some users, the overall market is expected to grow due to its convenience and flexibility.

However, the sector faces challenges such as regulatory scrutiny aimed at ensuring consumer protection. The Financial Conduct Authority (FCA) has been increasingly involved in overseeing the industry, which could lead to more stringent regulations and impact how BNPL services operate. Despite these challenges, major BNPL providers are expanding their presence and forming strategic partnerships to tap into the growing market. This combination of increasing consumer demand, regulatory developments, and strategic industry moves indicates a robust and evolving outlook for BNPL services in the UK.

### Current Scenario and Trends in BNPL Market

The BNPL market in the UK has experienced rapid growth, with a surge in consumer adoption. As of 2021, BNPL was integrated into many e-commerce platforms, making it accessible to a wide range of consumers. Consumers are using BNPL options for a variety of purchases, from fashion and electronics to household goods. Some traditional financial institutions have also ventured into the BNPL space to compete with established BNPL companies.

Relja et. al. (2023) highlights that the BNPL sector in the UK is influenced by various psychological factors among users, who mostly hold positive attitudes towards it. Key determinants include psychological distance and the perceived ownership of borrowed money, while transparency and convenience are less significant. Some users even view BNPL as a savings tool, suggesting current payment constructs may not fully capture users' perspectives. Despite the benefits related to consumption and budget management, potential negative

consequences are evident across all user groups. The study calls for better conceptualization of BNPL's psychological aspects, particularly temporality, and emphasizes the need for comprehensive discussions among providers, policymakers, consumers, and advocacy groups to address both user sophistication and misunderstandings.

## Major Players in the UK

A comprehensive report by Wright (2024) highlights several major players in the UK BNPL sector and provides insights into their offerings and performance. An overview of the main findings is as below.

### Klarna

**Merchant Services:** Offers various payment solutions like Pay Now, Pay Later, and Financing. It helps merchants increase sales and reduce cart abandonment. Klarna also assumes risk by handling credit and fraud checks.

**Shopper Services:** Provides flexible payment options, a user-friendly app, purchase protection, personalized shopping, budgeting tools, and a rewards program.

Klarna is one of the largest and most well-known BNPL providers in the UK. It offers a range of payment options, including "Pay Later" and "Pay in 3" services. Klarna has formed partnerships with major retailers such as ASOS and H&M, expanding its reach. Dominates the market with a wide range of services for both merchants and shoppers, enhancing customer experience and business performance through flexible payment options and advanced risk management.

### Clearpay (Afterpay)

**Merchant Services:** Helps businesses increase new shoppers by 40%, sales revenue by 15%, and sold items by 50%. Payments are received within several days of sales.

**Shopper Services:** Allows payment over six weeks without interest via a mobile app. Offers in-store and online purchases, and integration with Google Pay and Apple Pay.

Clearpay is another major player in the UK market. It allows consumers to split their purchases into four interest-free payments. Clearpay has gained traction with fashion brands like Boohoo and JD Sports. Boosts sales and customer acquisition for businesses. The app is popular for its easy-to-use interface and no-interest payment plans for shoppers.

### Laybuy

**Merchant Services:** Provides instant payouts, PCI DSS compliant software, and tools for tracking transactions and creating payment schedules.

**Shopper Services:** Enables payments over six interest-free weekly instalments. Offers features like personalized lists, wish list, and a Tap to Pay feature with MasterCard.

Laybuy offers a "Pay Later" solution with six weekly interest-free payments. It has a presence in various sectors, including fashion, electronics, and homeware. Attracts users with its Tap to Pay feature and secure transaction environment. Businesses benefit from instant payouts and compliance with security standards.

### **Payl8r**

**Merchant Services:** Offers subscription plans for businesses of various sizes, including features like in-store payment methods, payment links, and customizable repayment terms.

**Shopper Services:** Provides options for interest-free payments, instalment plans over 3 to 12 months, and a fast 30-day repayment option.

Payl8r offers flexible subscription plans and customizable payment solutions, making it suitable for various business sizes. Shoppers appreciate the diverse payment options and ease of managing payments.

### **Splitit**

**Merchant Services:** Partners with various industries, offering cost-effective features like no interest, transparent pricing, customizable instalment plans, and advanced security measures.

**Shopper Services:** Provides purchase-based, subscription-based, and interest-free loans. Payments are secured through temporary holds on credit cards without additional fees or interest.

Splitit focuses on interest-free instalment options with robust security measures, appealing to both businesses and customers who prefer flexible and secure payment methods.

### **DivideBuy**

DivideBuy was founded in 2014 in Newcastle, acquired by Zopa in early 2023. Offers BNPL options for online shoppers in the UK, collaborating with online merchants. Monthly instalments range from 3 to 60 months. Fixed payment amounts are customised and remain fixed throughout the agreement.

### **Zilch**

Zilch was founded in 2018 in the UK, with headquarters in London and offices in Miami and Krakow. Services accessed via a mobile app available on Google Play and Apple Store. It includes over 100 partner brands, including Apple, Zara, Amazon, Superdry, eBay, Adidas, Nike, and Just Eats.

## Overall Sector Performance

All BNPL providers offer user-friendly, free mobile apps, and high-security measures to protect customer data. Increased payment conversions, higher average order values, and quick approval processes are part and parcel of the UK BNPL sector. In terms of transparency, there are clear and fixed fees and rates, with no hidden costs. Exceptional support for both consumers and merchants is provided, along with flexible payment options with multiple payment methods and interest-free options making BNPL attractive to consumers (Johnson, 2024).

## Industry Challenges & Hurdles

Despite impressive gains, there are challenges and hurdles in the BNPL market in the UK which need to be addressed. A report by Ungeod-Thomas (2024) highlights several significant issues related to the "Buy Now, Pay Later" (BNPL) sector in the UK.

One of the major issues cited is **rapid growth and high usage**. BNPL spending in the UK has surged to up to £1.7 billion a month, with the total market expected to reach £30 billion this year. This rapid expansion underscores the growing reliance on BNPL services, particularly among those facing financial difficulties. **Lack of regulation** is another serious problem. Despite previous government promises to regulate BNPL services, meaningful regulatory action has been delayed.

**Increased debt and financial strain** pose as additional obstacles. Many users are resorting to BNPL for essential household items, which raises concerns about the increasing use of deferred payments to manage basic living costs. The unregulated growth of BNPL services has resulted in significant **consumer harm**, with reports of users requiring emergency support, such as food bank vouchers. In addition to lack of regulation, **delayed regulatory measures** serve as another challenge. Recommendations for regulation have not been promptly acted upon. **High proportion of BNPL transactions for groceries** is worth noting. A substantial percentage of BNPL users are using the service to buy groceries, indicating a reliance on deferred payments for essential items.



**Lack of consumer protections** is prevalent in the industry. Current BNPL products lack the same consumer protections as other forms of credit, such as the ability to approach the Financial Ombudsman for disputes. Some consumers, especially those already in financial trouble, turn to BNPL as a last resort, which can lead to **deeper debt spirals**.

In summary, the text suggests that the UK BNPL sector is experiencing rapid growth and increasing use, particularly among financially vulnerable consumers. The lack of effective regulation and the delays in implementing proposed regulatory measures are raising concerns about consumer protection and financial stability. Campaigners and policymakers are calling for urgent action to address these issues and ensure that BNPL products do not contribute further to consumer debt and financial hardship (Aidala, 2024).

## Regulatory Stance and Policies

FCA (2023) provides an overview of recent developments in the regulation of Buy Now, Pay Later (BNPL) services in the UK, focusing on the role of the Financial Conduct Authority (FCA). The FCA has made progress in addressing potentially unfair and unclear contract terms in the BNPL sector. While the FCA does not have direct regulatory oversight over all BNPL products, it has utilized its powers under the Consumer Rights Act 2015 to implement changes aimed at improving consumer protections.

The FCA has specifically targeted issues with contract terms from BNPL providers like PayPal and QVC. This intervention has led to these firms voluntarily revising their terms to make them clearer and fairer, particularly regarding continuous payment authority and cancellation policies. BNPL usage has significantly increased, with 27% of UK adults having used BNPL services within six months prior to January 2023. Frequent BNPL users tend to have higher levels of debt and are more likely to experience financial difficulties compared to those who use BNPL less frequently.

The FCA aims to ensure that consumers, especially those in vulnerable circumstances, are adequately protected. The agency is focused on ensuring that BNPL providers offer transparent and fair terms, and that all consumer contracts comply with consumer protection legislation. Data from the FCA's Financial Lives research reveals that frequent BNPL users are more likely to have high-cost credit products, increased debt, and missed payments, indicating a potential risk of deeper financial distress among heavy users.

## BNPL Outlook in India

As of 2023, the Indian Buy Now, Pay Later (BNPL) market is valued at approximately USD 5.8 billion. The sector is experiencing rapid growth, with over 70% of BNPL users in India under the age of 35. The COVID-19 pandemic accelerated this trend, resulting in a 50% increase in BNPL transactions in 2020. Millennials and Gen Z are leading the charge in BNPL adoption, driven by a preference for flexible and transparent payment options. The convenience of mobile app integration has further boosted BNPL's appeal.

The BNPL sector in India is poised for significant expansion, reflecting a growing interest in alternative credit solutions and an evolving financial landscape. The market is expected to continue its upward trajectory, supported by technological advancements, increasing digital penetration, and a rising middle class with an appetite for credit. Projections suggest that the BNPL market in India could reach new heights in the coming years.

Key factors driving this growth include:

- **Smartphone and Internet Penetration:** Widespread access to smartphones and the internet has facilitated BNPL adoption. Mobile apps and online platforms make it easy for consumers to use BNPL services for both online and offline purchases.
- **Financial Inclusion:** BNPL offers an alternative credit solution to consumers who may not have access to traditional credit facilities, addressing a significant segment of the population that remains unbanked or underbanked.
- **E-Commerce Growth:** The surge in online shopping and the rise of digital payment systems like Unified Payments Interface (UPI) have created a conducive environment for BNPL. Online retailers and marketplaces are increasingly integrating BNPL options to attract customers and boost sales conversions.

### Current Scenario and Trends

BNPL has seen remarkable growth in India, largely driven by the expanding e-commerce sector. Millennials and Gen Z, in particular, prefer BNPL for its convenience and flexibility. The pandemic has further accelerated BNPL adoption as consumers sought alternatives to traditional credit methods.

A study by Swaminathan (2024) highlights several key drivers of BNPL growth in India:

- **Convenience and Accessibility:** BNPL provides a simpler and more accessible alternative to traditional credit cards.
- **Technological Integration:** High internet and smartphone usage in urban areas support the adoption of digital BNPL solutions.
- **Online Shopping:** The growth of online shopping and digital payment systems has created a favorable environment for BNPL.

The rapid rise of BNPL services has transformed consumer purchasing behavior, especially in mobile retail. BNPL offers immediate access to goods with flexible payment terms, leading to increased adoption and influence in the retail sector (Tirpude & Dahake, 2024).

Research by Rompas et al. (2020) on "pay later" services among college students reveals that transaction benefits and discounts significantly influence spending behaviors, while transformational advertising has less impact.

## Major Players in India

The BNPL sector in India is becoming increasingly dynamic, with several key players shaping the market:

1. **Axio:** Formerly Capital Float, Axio offers a range of financial products, including BNPL, aiming to democratize access to credit for traditionally underserved populations across India.
2. **ePayLater:** Headquartered in Mumbai, ePayLater provides zero-cost credit solutions primarily for SMEs, enabling businesses to manage purchases without immediate cash constraints.
3. **Freo:** Freo Pay offers BNPL services up to ₹10,000 with a 30-day repayment period, positioning itself as a credit-led neobank with mobile-based lending solutions.
4. **Flexmoney:** Flexmoney provides instant, cardless credit at points of sale, expanding its network and product offerings as a leading BNPL and digital credit provider.
5. **Slice:** Combining credit cards, UPI payments, and prepaid banking accounts, Slice targets young consumers with limited credit history, offering loans up to ₹5 lakh and flexible EMI options.
6. **PayU:** A prominent BNPL provider, PayU partners with various e-commerce platforms to offer deferred payment solutions.

7. **Simpl:** Simpl streamlines the payment process, allowing customers to make purchases and settle bills later, with numerous integrations into online merchants and apps.
8. **ZestMoney:** Known for financing e-commerce purchases, ZestMoney offers digital credit lines and partners with major platforms like Amazon and Flipkart.

The BNPL market in India is expected to grow at a compound annual growth rate (CAGR) of 54.3% from 2022 to 2028, driven by the adoption of digital payment solutions and a large, credit-averse consumer base. The sector's expansion is likely to attract global players and foster strategic partnerships in the coming years (Joshi, 2023).

## Industry Challenges & Hurdles

Despite the growth, challenges persist. Studies highlight several issues:

- **Consumer Education:** The need for broader public education on cashless transactions remains crucial to overcoming existing barriers (Aggarwal et al., 2021).
- **Debt and Financial Stability:** The reliance on BNPL services could exacerbate financial burdens and income inequality, leading to higher household debt (Rafee et al., 2022).

## Regulatory Stance and Policies

The Reserve Bank of India (RBI) and the National Payments Corporation of India (NPCI) regulate BNPL services, with guidelines issued in 2020 to ensure consumer protection and responsible lending practices. The RBI's guidelines, including restrictions on non-banks loading credit lines onto prepaid instruments, aim to mitigate risks and promote stability (Malik, 2024).

## Conclusion

The future of BNPL faces both opportunities and challenges. In the UK, BNPL is expected to become a standard payment option, with a focus on responsible lending and FCA compliance. In India, BNPL will likely continue to grow, particularly among younger consumers and within the expanding e-commerce sector. BNPL providers in India may diversify into additional financial services and offer localized support to cater to a broader demographic.

The BNPL industry represents a significant shift in consumer financing, offering flexibility and convenience that resonate with today's digital consumers. Both the UK and India are experiencing rapid BNPL expansion, driven by increasing consumer demand and technological advancements. While the sector offers numerous benefits, including enhanced purchasing power and increased sales for retailers, challenges related to regulation and financial stability must be addressed. Collaboration among stakeholders to develop robust frameworks will be essential for ensuring responsible BNPL practices and sustainable growth.

The global Buy Now, Pay Later (BNPL) market is poised for robust growth, driven by its convenience, flexibility, and the increasing adoption of digital payment solutions. This growth is evident across various regions, including Europe, Africa, and the United States, where consumer demand for deferred payment options continues to rise. In Europe, the market is expected to reach significant milestones, with projections indicating substantial increases in market size by 2029. The region's growth is fuelled by strategic partnerships and innovation, despite challenges such as rising inflation and interest rates. Africa's BNPL market is also expanding rapidly, particularly among unbanked and underbanked populations, with significant investments being made to enhance service offerings.

However, the BNPL sector faces significant challenges, including increased competition from traditional financial institutions and fintech startups, as well as heightened regulatory scrutiny. Governments worldwide are implementing stricter rules to protect consumers, which could impact the operational flexibility and profitability of BNPL providers. Macro-economic factors, such as rising interest rates and inflation, also pose risks to the market, potentially leading to higher default rates and funding challenges for smaller providers.

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