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A Study on Customer Preferences towards Buy Now Pay Later (BNPL) Services and its Impact on their Financial Well-Being in Chennai City

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Abstract:

The technological revolution has seen a massive change in the payment systems and has resulted in a plethora of options for making a payment for any transaction. The popularizing FinTech industry has given various solutions for making payments digitally without the involvement of physical currency. It has reshaped the customer behaviour and the market as a whole. The emergence of this industry has resulted in several digital payments options such as Unified Payment Interface (UPI), Neo Banks and Payment Banks, Payment Gateways, Cryptocurrencies and even Point of Sale (POS) Credit like Buy Now Pay Later (BNPL) services. India has been quite conservative towards credit and has always seen it as a debt trap instrument. But the new FinTech startups managed to change the customer mentality by increasing the awareness and providing more valuable solutions using BNPL. Furthermore, the COVID-19 pandemic postulated itself as an opportunity for the players in the credit industry. This paper adds to the growing literature exploring the impact of BNPL services on the users' financial well-being along with the customer preference towards them over other forms of credit. It helps in understanding how the demographic factors such as age and income have had an impact on the users of BNPL in terms of their preference and financial soundness.

Keywords: Buy Now Pay Later, BNPL, FinTech, POS Credit, FinTech Credit

INTRODUCTION

The credit markets all around the world have evolved and so has the credit market in India. With the evolution of FinTech credit and the introduction of BNPL services, the risk averse society has also been slowly transforming. In India, financial services and FinTech sectors witnessed a significant growth during the pandemic. It has also emerged as one of the fastest growing FinTech markets around the world. Banks, Financial Institutions, Mobile Wallets and several other platforms have integrated the BNPL system into their services.

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Buy Now Pay Later, in short also known as BNPL is a short term financing option that allows customers to purchase a good/service now and pay for it later. It is a form of Point of Sale (POS) credit and are repaid through instalments. BNPL services are offered at no interest or lower interest rate than other credit services and the approval process is also quick and hassle free. It is a more convenient option compared to credit cards.

The India BNPL market consists of:

- App-based BNPL Players like Lazypay, Simpl, Zest Money, Cashe, ePay Later
- Platform based like Amazon Pay Later, Flipkart Paylater, Ola Money postpaid
- Card based Players like Slice, Postpe, Dhani One freedom Card
- M-wallets offering BNPL Services like Free charge Pay Later, Paytm Postpaid
- Banks offering BNPL Services like Pay Later by ICICI, Flexi Pay by HDFC

With the increasing use of online shopping and other online services, the need for FinTech credit has seen a rise. BNPL has seen a tremendous growth across the world over the last few years. In India, the BNPL sector is growing and will continue to grow at stupendous levels as per a study conducted by PwC in August 2021. It predicts that the transaction value will grow by 779% by FY 25-26 (to Rs. 3191 billion), transaction volumes by a massive 953% by the same FY (to 2 billion) and BNPL revenues to grow by 648% by the same FY (to Rs.172 billion).

REVIEW OF LITERATURE

1. SARAH PAPICH (2022)

The author provides the first evidence with respect to the effects of access to BNPL services to the people on the use and repayment of other forms of credit. The author through his research finds that BNPL services have increased borrowings by customers and has also improved their ability to repay their debts. The results show that on average, customers are more responsible when using BNPL services and they do not accumulate debt.

2. SUDHANSHU SEKHAR PANI (2022)

The author examines the strength, opportunities, and the challenges that the customers, service providers, investors and regulators face due to BNPL services. The model highlights the strengths of the BNPL service. The author also finds that the service is robust and attractive to all stakeholders.

3. ELIZABETH BOSHOFF, DAVID GRAFTON, ANDREW R. GRANT AND JOHN WATKINS (2022)

The authors analyse the transactional data of 4 BNPL platforms on credit and debit cards at one of the largest Australian financial institutions from January to December 2021. The results show that approximately 40% of the BNPL users have accounts in more than one BNPL service provider. Moreover, they found out that most of the users using multiple BNPL service providers are from a lower socioeconomic area and are more likely to be receiving benefits from the government, has a higher credit card usage rate and are sanctioned more personal loans. Multiple BNPL users are also likely to represent a greater credit risk to financial institutions.

4. AARON GILBERT & AYESHA SCOTT (2022)

The authors investigated the relationship between the effect that BNPL has on financial wellbeing and the over-indebtedness, adding to the handful number of literatures available on the same. The study was conducted over a sample of 705 individuals in New Zealand aged between 18-34. The results of this study shows that over-indebtedness are more common among those who use BNPL poorly by incurring fees and other charges and even borrowing from other sources to repay their BNPL balance. The authors also suggest that the results suggest conclusive evidence for the need to extend existing customer finance regulations to BNPL services too.

OBJECTIVES OF THE STUDY

- (i) To study the preference of customers in using BNPL services over other forms of credit.
- (ii) To study the preference of customers in choosing a BNPL service over others.
- (iii) To analyse the impact of BNPL services on financial wellbeing of customers.

STATEMENT OF PROBLEM

As the credit sector in India continues to expand, more and more customers and merchants are preferring to use BNPL services during sale and purchase. Having given a rise in the number of BNPL service providers, other credit services and the customer's financial health have been impacted. Understanding the changing preference of customers towards BNPL from other traditional forms of credit along with their preference towards specific BNPL service providers can give an insight on what features of these services do customers look for when choosing them. Furthermore, understanding the impact of such services on the financial health and wellness of customers can help the customers in making decisions regarding usage of BNPL services.

RESEARCH METHODOLOGY

The research was conducted through the collection of primary data. The mailed questionnaire was circulated through google forms and data was collected from a total of 150 respondents. The sampling technique used was snow-ball sampling. Analysis and interpretation was done with the help of SPSS software using various statistical tools such as ANOVA, Chi-Square and Correlation along with Frequency Analysis.

DATA ANALYSIS AND INTERPRETATION

Credit Services Used by the Respondents

| BNPL | Credit Card | Short-term loans/ Personal loans/ Others | None |
|-------------|--------------------|---|-------------|
| 50 | 55 | 22 | 57 |

BNPL Services Used by the Respondents

| | |
|---------------------------|----|
| Cred | 8 |
| Flex Money | 2 |
| UNI Cards | 4 |
| Lazy Pay | 8 |
| Slice | 7 |
| Post Pe | 4 |
| Simpl | 5 |
| Zest Money | 3 |
| Amazon Pay Later | 28 |
| Flipkart Pay Later | 10 |
| Paytm Post Paid | 8 |
| HDFC Flexipay | 3 |
| ICICI Pay Later | 2 |
| OlaMoney Postpaid | 9 |

Reasons for Choosing the BNPL Service Provider They Use

| | |
|---|----|
| More repayment options | 10 |
| Lower interest rates/processing fees | 26 |
| Lower late fees | 19 |
| Longer credit periods | 17 |
| Flexible installments | 16 |
| Higher credit limit | 13 |
| Acceptance by wider range of merchants | 25 |

Types of Regrets Users Have in Using BNPL Services

| | |
|---------------------------------------|----|
| No regrets | 29 |
| Made an impulsive purchase | 14 |
| Paid a late fee | 10 |
| Bought a more expensive option | 3 |
| Overstretched Budget | 3 |

Age Groups Vs Products / Services Bought Using BNPL

| | 18-24 | 25-30 | 31-40 | 41-50 | Above 50 |
|---------------------------------|-------|-------|-------|-------|----------|
| Technology products | 17 | 3 | 2 | 3 | 2 |
| Furniture/ Home goods | 6 | 3 | 1 | 1 | 1 |
| Clothing | 10 | 4 | 1 | 1 | 0 |
| Healthcare | 4 | 2 | 1 | 2 | 0 |
| Groceries | 14 | 3 | 0 | 1 | 0 |
| Restaurant | 9 | 3 | 0 | 2 | 1 |
| Luxury products/services | 5 | 3 | 1 | 2 | 0 |
| Cab services | 2 | 0 | 0 | 0 | 0 |

Age Vs Frequency of Use

Null Hypothesis (H0): The mean frequency of use of BNPL services across all age groups is the same.

Alternate Hypothesis (Ha): At least one of the age groups has a different frequency of use when compared to the others.

ANOVA

How often do you use BNPL services?

| | Sum of Squares | df | Mean Square | F | Sig. |
|-----------------------|----------------|----|-------------|------|------|
| Between Groups | 3.270 | 4 | .818 | .387 | .817 |
| Within Groups | 95.050 | 45 | 2.112 | | |
| Total | 98.320 | 49 | | | |

INFERENCE:

P-value = 0.817

This means that there is no statistically significant difference between the age groups and the frequency of use of BNPL services. In other words, the age groups being compared do not differ significantly in terms of the use frequency of BNPL services. Therefore, the null hypothesis cannot be rejected.

Income Vs Impact on Financial Well-Being

Null Hypothesis (H0): The mean level of impact of BNPL services on their financial wellbeing is same for all income groups.

Alternate Hypothesis (Ha): The mean level of impact of BNPL services on their financial wellbeing is different among different income groups.

ANOVA

How has BNPL services affected your financial wellbeing?

| | Sum of Squares | df | Mean Square | F | Sig. |
|----------------|----------------|----|-------------|-------|------|
| Between Groups | 3.640 | 4 | .910 | 1.000 | .417 |
| Within Groups | 40.940 | 45 | .910 | | |
| Total | 44.580 | 49 | | | |

INFERENCE:

P-value = 0.417

It means that there is no statistically significant difference between the mean level of the impact of BNPL services on the users' financial wellbeing and the users' income. In simple terms, it means that income does not have a significant effect on the impact of BNPL services.

Preference Over Other Forms of Credit Vs Convenience of Use

Null Hypothesis (H0): There is no association between user preferences of BNPL over other forms of credit and the convenience in using BNPL.

Alternate Hypothesis (Ha): There is an association between user preferences of BNPL over other forms of credit and the convenience in using BNPL.

Chi-Square Tests

| | Value | df | Asymptotic Significance (2-sided) |
|------------------------------|--------------------|----|-----------------------------------|
| Pearson Chi-Square | 6.247 ^a | 2 | .044 |
| Likelihood Ratio | 5.893 | 2 | .053 |
| Linear-by-Linear Association | 1.379 | 1 | .240 |
| N of Valid Cases | 50 | | |

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 1.60.

INFERENCE:

P-value = 0.044

There is a statistically significant association between the customer preference towards BNPL services and the convenience it offers over the other forms of credit. In simple terms, the convenience of using BNPL services is significantly related to whether customers prefer BNPL services over other forms of credit or not.

Income Vs Preference Over Other Forms of Credit

Null Hypothesis (H0): There is no association between the various income groups and their preference towards BNPL services over other forms of credit.

Alternate Hypothesis (Ha): There is an association between the various income groups and their preference towards BNPL services over other forms of credit.

Chi-Square Tests

| | Value | df | Asymptotic Significance (2-sided) |
|------------------------------|---------------------|----|-----------------------------------|
| Pearson Chi-Square | 15.649 ^a | 8 | .048 |
| Likelihood Ratio | 15.767 | 8 | .046 |
| Linear-by-Linear Association | 2.066 | 1 | .151 |
| N of Valid Cases | 50 | | |

a. 13 cells (86.7%) have expected count less than 5. The minimum expected count is .40.

INFERENCE:

P-value = 0.048

There is a statistically significant association between the customer preference towards BNPL services and their income. In simple terms, income is significantly related to whether customers prefer BNPL services over other forms of credit or not.

Impact on Financial Well-Being Vs Use in Future

Null Hypothesis (H0): There is no significant correlation between the impact of BNPL services on customers' financial well-being and their preference to use these services in the future.

Alternate Hypothesis (H1): There is a significant correlation between the impact of BNPL services on customers' financial well-being and their preference to use these services in the future

Correlations

| | | How has BNPL services affected your financial wellbeing? | How likely are you to use BNPL services in the future? |
|--|---------------------|--|--|
| How has BNPL services affected your financial wellbeing? | Pearson Correlation | 1 | .666** |
| | Sig. (2-tailed) | | <.001 |
| | N | 50 | 50 |
| How likely are you to use BNPL services in the future? | Pearson Correlation | .666** | 1 |
| | Sig. (2-tailed) | <.001 | |
| | N | 50 | 50 |

** Correlation is significant at the 0.01 level (2-tailed).

INFERENCE:

A significance level of < 0.001 in a Pearson correlation test indicated that the correlation between the impact of BNPL services on customers' financial well-being and their preference to use these services in the future is extremely strong and highly unlikely to have occurred by chance. Therefore, it can be concluded that there is a statistically significant relationship between the impact of BNPL services on customers' financial wellbeing and their preference to use these services in the future.

FINDINGS, SUGGESTION AND CONCLUSION

Findings

- The findings of the study show that 50 out of the 150 respondents have used BNPL while 55 have used credit cards and 22 have taken short-term loans.
- Amazon Pay Later was the most commonly used BNPL service provider followed by Flipkart Pay Later.
- The main reason for choosing BNPL over other forms of credit was the lower interest/processing fees and the acceptance of BNPL by a wider range of merchants.
- Though a majority of the users did not have any regrets in using BNPL, a few of them regret having made an impulsive purchase or paid a late fee.
- BNPL was most used for purchasing technology gadgets followed by groceries and clothing.
- The study also indicates that there is not much difference in the frequency of using BNPL services among various age groups.
- Furthermore, the analysis show that income is not a determinant of the users' financial well-being and those who have had a positive impact are more likely to continue using BNPL services in the future.
- The study also identifies that people find it more convenient to use BNPL services and income has a direct association with the customers' preference of choosing BNPL service over other forms of credit.

SUGGESTIONS

This study had various limitations that can be eliminated in the future study. Owing to the restraint in the time period for collection of data, sample size used was not sufficient for in depth understanding of the research. This paper also had a bias towards the age group of 18-24 accounting for around 60% of the respondents. There is a scope for further research to analyse the preference of customers towards various BNPL service providers and the reason for the choosing them. Furthermore, the research can also be expanded across India to gain a comprehensive understanding of this topic from the nation as a whole.

CONCLUSION

This paper adds to the growing literature exploring the impact of BNPL services on the users' financial well-being along with the customer preference towards them over other forms of credit. It helps in understanding how the demographic factors such as age and income have had an impact on the users of BNPL in terms of their preference and financial soundness. The research topic also has a lot of future scope for future researchers considering the finite number of papers available on this topic.

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