

Research on Psychological Motivation of Buy-now-pay-later in Consumer Finance: Benefits and Risks for Consumer

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Abstract

The use of digital wallets has significantly increased worldwide. These wallets link to consumers' bank accounts and support a variety of fintech payment methods, including the increasingly popular Buy Now, Pay Later (BNPL) option. Many merchants have now introduced BNPL features, allowing consumers to place orders and pay after receiving the goods. BNPL represents an innovative shift in consumption patterns, particularly appealing to young, low-income, and promotion-driven consumers. While this attractive payment mechanism seems to offer a convenient and fast shopping experience, the reality is more complex. This article first discusses the different types of BNPL and their adaptability to various consumer needs, highlighting the benefits for consumers. Next, it explores the psychological factors that drive the widespread use of BNPL. Finally, it reveals the potential consumer risks associated with BNPL in China's financial market, aiming to raise public awareness and provide a new perspective on maintaining a fair and transparent financial market. The study found that BNPL provides consumers with innovative benefits in terms of the payment pain, the herd effect, and the convenience of immediate acquisition and other motivations. However, there are currently no effective measures in place to address the risks of overconsumption, information asymmetry, and regulatory corruption.

Keywords

Buy-now-pay-later, Financial Markets, Psychological Motivations, Consumer Risk.

1. Introduction

BNPL is a new payment service offered by fintech companies. Its primary function is to stimulate consumer spending by allowing individuals to enjoy the value of a product upfront without immediate payment, followed by installment or deferred payments. Platforms like Alipay and PayPal integrate BNPL as a built-in feature, connecting to third-party service providers such as Affirm and Klarna through open APIs to create a seamless "one-click installment" experience. This mechanism is similar to credit card payments but is simpler to operate. As long as users meet the credit rating criteria evaluated by the platform, they can enjoy the benefits of this credit service.

BNPL has gained widespread popularity across various countries. In 2024, the UK is projected to have approximately 5 million BNPL users, a four-fold increase compared to 2020 [1]. The Australian Securities and Investments Commission reported that Australia had over 6 million BNPL users in 2018, accounting for about 30% of the adult population [2]. As customer satisfaction improves, merchant revenues have reached new heights. In the North American market, the revenue share generated by BNPL surged from 2.6% to 3.8% in 2021, with global contributions expected to reach 5.3% by 2025 [3].

Is the popularity of BNPL primarily due to the substantial consumer benefits derived from financial technology companies' deep understanding of consumer needs and psychological

motivations, or is it the result of their clever tactics to downplay consumer risks? This article will systematically explore the intersection of behavioral finance and marketing, demonstrating the various types of BNPL, the benefits related to consumer psychology, and a case analysis of consumer risks within the Chinese financial market. The aim is to highlight the dual nature of BNPL usage and to call upon all stakeholders in society—including the government, enterprises, and consumers—to collaboratively maintain a safe consumer environment.

2. Types of BNPL

In modern consumer finance, there are four main types of BNPL options in the market, each tailored to different consumption scenarios and groups through specific payment mechanisms. Deferred Payment allows consumers to purchase goods without immediate payment, as the BNPL platform pays the merchant in full and gives consumers a specified period (often 30 days, as seen with 48% of Klarna's partner providers [4]) to repay the total amount in a lump sum, typically interest-free if paid on time, with late fees possible, and it applies to both everyday items and high-priced products like furniture and electronics. Short-Term Installments address consumers' needs by splitting repayments into three or four equal, interest-free installments over a few weeks—for example, Afterpay in Australia offers four installments within eight weeks for online and offline purchases, while Sezzle in the U.S. provides similar interest-free services but may charge fees for repayment date adjustments, suitable for mid-to-high-priced goods [5]. Extended Installments feature longer repayment periods, usually six to twenty-four months or more, enabling consumers to manage large expenses through smaller regular payments without compromising quality of life, as seen with Taobao's 24-month interest-free plans for luxury brands like Bulgari, and they also help with unavoidable life costs such as education or medical bills. Flexible Repayment is designed for consumers with unstable incomes, allowing customization of repayment terms for unexpected expenses like emergency medical bills; it uses a credit review model to categorize users into approval, manual review, or rejection, may involve additional fees, and has an annualized interest rate inversely linked to credit scores, encouraging timely payments and positive credit records [6]. These mechanisms support both consumers' financial management and fintech companies' sustainable benefits.

3. Controlled Consumer Psychological Motivation

The consumer decision-making process model was originally proposed by psychologist John Dewey, who systematically outlined five psychological trends that influence consumers during the purchasing process [7]. These five steps are: Need Recognition, Information Search, Alternative Evaluation, Purchase Decision, and Post-purchase Evaluation. This section discusses how BNPL effectively taps into consumer psychological motivations through each of these stages.

3.1. The Payment Pain

Consumers experience various emotions throughout the purchasing process, particularly during the Need Recognition stage when they first consider buying. A significant factor influencing this process is "payment pain", which refers to the psychological burden associated with the realization that financial resources will be spent [8]. The degree of payment pain is closely linked to the transparency of the payment method. Relja, Ward, and Zhao [1] found that as payment transparency increases, so does the associated payment pain.

The focus of traditional cash purchases is solely on immediate prices, resulting in high levels of payment transparency. This can result in consumers receiving fewer benefits from their transactions, as merchants often gain additional profits. Furthermore, the tactile nature of physical currency [9] enhances the emotional impact of perceived money loss, resulting in

greater payment pain. In contrast, BNPL postpones payment to one or more installment options [10]. By shifting the focus from financial expenditure to product ownership, BNPL effectively diminishes the psychological burden associated with spending. Consumers experience possession before making full payment, which reduces negative emotions related to purchasing [11].

When assessing the feasibility of purchase motivation, consumers utilize mental accounting. Thaler [12] demonstrated that individuals create independent account systems based on different sources, purposes, or scenarios. In the Need Recognition stage, psychological accounts are primarily categorized into Utilitarian needs and Hedonic needs. Utilitarian needs focus on functional satisfaction and rational problem-solving [13]. In this context, BNPL facilitates multi-period payments for essential items, helping consumers address their Utilitarian needs more decisively. Hedonic needs, on the other hand, are driven by emotional satisfaction and pleasure. Consumers often rely on intuition and immediate feelings to make purchases aimed at enjoyment rather than necessity [14]. Descriptions of "0 interest installments" by fintech companies have shifted the payment anchor for hedonic goods, allowing high-priced items to be categorized under "monthly pocket money" rather than "annual wish funds," thus enhancing the perceived affordability of such purchases. Additionally, BNPL's flexible payment mechanisms can trigger the Sunk Cost Fallacy in consumers' psychological accounts [15], leading them to rationalize hedonic spending as practical expenditures to fulfill emotional needs.

3.2. The Herd Effect

Before making a formal purchase, consumers actively seek information about retailers, products, and purchase channels to align with their preferences. In this Information Search phase, consumers sift through numerous alternatives to identify the best fit for their needs. External factors can significantly influence impulse purchases via BNPL. Social media and the herd effect often prompt consumers to adopt BNPL payment mechanisms without a strong commitment to buy.

Social media has emerged as a powerful channel for promoting BNPL through the creation, sharing, and dissemination of content. As a digital platform that facilitates user interaction, social media employs marketing strategies such as short videos and user comments to capture attention and drive impulse purchases [16]. Fintech companies like Clearpay and Klarna invest in social media advertising to promote BNPL services, targeting high-traffic areas to maximize outreach. By presenting novel consumption ideas—such as before-and-after home renovations—social media stimulates consumers' desires and highlights how BNPL can facilitate achieving an ideal living environment. The combined impact of dynamic editing techniques and engaging sound effects amplifies consumers' impulsive acceptance of BNPL.

The bandwagon effect occurs when individuals feel societal pressure to conform to group behaviors, seeking belonging and security [17]. When consumers observe that peers commonly use BNPL, they may experience Fear of Missing Out (FOMO). This sensation leads them to question the validity of their peers' choices and fear missing out on the advantages of BNPL. As a result, consumers may overlook their actual needs, leading to impulsive decisions [18]. Marketing strategies that leverage Call to Action (CTA)—such as "Your friends have purchased" or "Friends' exclusive benefits"—further reinforce this group behavior, suggesting that non-participation equates to exclusion from social benefits. Driven by FOMO and savvy marketing tactics, BNPL's popularity spreads rapidly within social circles.

Consumers have various sources to draw from when searching for information. Internal sources encompass their subjective memories of products, services, brands, and payment methods, while external sources include information from the Internet, advertisements, and peer recommendations. Social media and the herd effect represent external influences that

subtly shape consumers' perceptions and acceptance of BNPL in their daily lives. Over time, consumers may find their information sources dominated by positive portrayals of BNPL, leading to the formation of an Information Cocoon. At this stage, they may increasingly favor BNPL, disregarding negative information due to entrenched biases [19]. During the Alternative Evaluation phase of the decision-making process, consumers generate a consideration set in their minds [20]. These established beliefs often cause consumers to narrow their options by excluding non-BNPL alternatives, thereby expediting their decision-making process.

3.3. Convenience of Immediate Acquisition and Other Motivations

Convenience is a critical factor influencing consumers' willingness to pay [1]. Across all four types of BNPL, this payment method offers a simple and rapid transaction process in the current market. As consumers transition from evaluation to purchase, BNPL capitalizes on the opportunity to minimize waiting times for acquiring products or services. With the rise of electronic payments, the traditional need to queue has been eliminated, compressing the time consumers have to reflect on whether the goods meet their actual needs. For instance, when users purchase Apple products, the payment page automatically defaults to the BNPL option. The entire payment process is linked to the Apple ID, allowing the BNPL agreement to be signed within seconds.

Moreover, during moments of consumer hesitation, providing sufficient information to encourage positive evaluations is essential for expediting decision-making [21]. BNPL service providers often detect when consumers frequently browse high-priced items and may display enticing messages like "monthly payment from ¥199" and "hassle-free returns with no interest" in a floating window. This strategy enhances consumers' Illusion of Control, boosting their confidence in repayment capabilities and reducing the likelihood of regret associated with impulsive decisions.

In the post-purchase evaluation stage, BNPL also effectively taps into consumer psychology. Many BNPL platforms employ reward mechanisms to enhance user loyalty. By evaluating users' creditworthiness, the system may send reminders about credit point growth following repayments. When users accumulate sufficient credit points, they can receive coupons offering discounts on future payments. This positive feedback loop, generated by points and discounts from successful repayments, encourages consumers to repeatedly choose BNPL.

4. Consumer Risks of BNPL in the Chinese Market

4.1. Overconsumption

The original design intent of BNPL financial services is commendable, aiming to assist consumers with tight financial management in achieving income growth. However, irrational consumer behaviors-such as overconfidence in repayment abilities and impulsive purchases-can lead to unintentional overconsumption. Research indicates that BNPL is particularly popular among millennials and Generation Z [10]. These age groups often exhibit lower self-control regarding conspicuous consumption, such as purchasing luxury goods, making BNPL an appealing option for meeting immediate financial needs.

Currently, the primary consumer demographic in the Chinese market is young individuals, resulting in widespread debt issues. The annualized interest rates associated with flexible repayment plans are often disguised as smaller units, such as daily or monthly rates, obscuring the actual costs. Coupled with the convenience of BNPL, consumers may readily accept these services. Additionally, for some BNPL options, like Deferred Payment, failure to pay on time can result in daily late fees. The compounding annual interest can reach between 36% and 110%, significantly higher than credit card interest rates [22]. When consumers engage with such

services, they essentially borrow from the corresponding BNPL provider, leading to an accumulation of debt.

Consumers often shop across multiple platforms to compare prices, which can result in the simultaneous use of BNPL services and lead to cross-platform short-term debt accumulation. If unforeseen necessary expenses arise, this may push their financial obligations beyond manageable limits. Consequently, interest rates can escalate exponentially, resulting in an overwhelming debt crisis. Furthermore, even consumers who initially exhibit strong financial foresight and lack current debt may gradually lose their budgeting habits through prolonged BNPL usage. These loyal BNPL users may become less vigilant and increasingly indulge in the immediate gratification associated with overspending.

4.2. Information Asymmetry

In BNPL transactions, there exists a disparity in the ability of consumers and service providers to access each other's information [23]. BNPL providers leverage modern IT technologies, such as behavior tracking and consumption data, to create comprehensive profiles of consumers. In contrast, most consumers lack a clear understanding of the financial sector's professional knowledge and operational mechanisms. As a result, they may become skeptical and hesitate to use various BNPL options. However, BNPL providers employ a range of marketing strategies—such as emphasizing interest-free installments and personalized recommendations—to guide consumers who may not be fully aware of their best interests.

Moreover, BNPL providers often exploit this information asymmetry by not fully disclosing the terms of service, leading consumers to incur economic losses without complete knowledge. On many e-commerce platforms in China, such as Douyin and Taobao, the BNPL feature is enabled by default without explicit consumer authorization, and a complex process is required to disable it. This practice poses a significant barrier to individuals who are not accustomed to electronic payments, particularly the elderly.

Additionally, consumer information security is a critical concern in the financial services sector. When BNPL providers possess extensive consumer data—including financial status, personal identity information, and consumption preferences—there is a heightened risk of data abuse and leakage. Failure to safeguard this information increases the likelihood of identity theft and fraud, endangering consumers' financial security and privacy.

4.3. Corruption of Regulatory Agencies

The operational model of BNPL services typically involves three parties: BNPL providers, merchants, and consumers. Fintech companies and shopping platforms act as controllers of the BNPL consumption process, potentially manipulating consumer shopping behavior. They leverage their financial power to influence regulatory agencies, shifting the regulatory system from serving public interests to catering to private interests, thereby depriving consumers of their rightful protections.

Regulators may have relatives or agents holding shares in BNPL companies, contributing to an environment ripe for corruption. After a company goes public or merges, these "shadow shareholders" may profit significantly through pre-agreed consulting fees. Within this constrained market, the acquisition of rights often requires equitable concessions from both parties. Some local financial regulators may lower approval standards or simplify inspection procedures to grant operating licenses to BNPL platforms lacking adequate risk controls. Consequently, consumers utilizing BNPL services face risks such as aggressive collection practices and sudden interest rate increases.

The insufficient attention from the government also increases the potential for corruption. While Chinese regulators monitor the credit data of BNPL providers and consumers, there is no open and transparent database. As BNPL currently occupies a gray legal area, clear disclosure

regulations are lacking [24]. The expectation of "self-regulation" within the BNPL system is unrealistic in the Chinese market, fostering a legal environment conducive to corruption. Regulatory terms may be shaped by captured regulators, resulting in diminished market transparency. When ordinary investors encounter this unfair competition eroding their market share, they may compromise their ethical standards and engage in corrupt practices, ultimately jeopardizing the stability of the entire financial system.

5. Conclusion

The rise of BNPL in the financial services market responds to the refined needs of consumers. This article analyzes the various benefits BNPL offers based on different groups and scenarios, including Deferred Payment, Short-Term Installments, Extended Installments, and Flexible Repayment. BNPL effectively taps into consumer psychological motivations such as payment pain, the herd effect, and the convenience of immediate acquisition. However, risks like overconsumption, information asymmetry, and regulatory corruption are prevalent in the Chinese market. Therefore, BNPL is the product of financial technology companies' full understanding of consumer needs, and has brought about a certain improvement in consumer experience in the consumption process. However, the risks it generates are caused by individual consumers, companies and regulators.

To create a safe consumption environment, collaboration is essential. Consumers should enhance their financial literacy through training, making informed decisions and recognizing that BNPL does not mean avoiding payment. They must carefully read terms when encountering BNPL offers to avoid unnecessary issues. BNPL providers often conceal detrimental information to promote consumption, threatening market fairness. These companies should improve information transparency regarding the nature and risks of BNPL, enabling consumers to make independent choices. Special restrictions should be imposed on vulnerable groups like children and the elderly. Additionally, platforms should simplify the BNPL activation and cancellation processes. Improving legal provisions for new consumption models will help clarify rights and obligations, ensuring transparency in advertising and regulatory enforcement. Strengthened legal supervision will protect consumer rights and define the operational framework for financial companies. In conclusion, we call on the public to protect a safe consumption environment, aiming for a win-win situation where BNPL services benefit consumers while balancing the interests of all parties.

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