

BUY NOW PAY LATER: A REVOLUTION CHALLENGED IN INDIA

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Abstract— The concept of Buy Now Pay Later (BNPL) has gained significant traction in India, with numerous players entering the market. However, this payment method is facing regulatory scrutiny due to concerns about its impact on consumer debt and financial stability. This paper explores the current state of the BNPL industry in India, including its benefits and drawbacks, as well as the regulatory landscape and potential implications for consumers and the financial sector.

Index Terms—Buy Now Pay Later, Credit, Analysis, Challenges, Revolution, India

I. INTRODUCTION

Buy Now Pay Later (BNPL) is a type of consumer credit that has grown in popularity in recent years, especially among the younger generations. BNPL allows consumers to purchase goods or services now and pay for them in installments over a set period of time, without having to pay any interest or fees. This paper aims to provide an overview of the growing trend of BNPL, including its benefits, drawbacks, and impact on the economy.

The growth of BNPL has had a significant impact on the economy in India, as it has increased consumer spending and provided a new source of credit for consumers. Additionally, BNPL has helped to create new jobs and has provided a new source of revenue for retailers. However, it has also led to concerns about the growth of consumer debt, as well as the potential for abuse of exploitation by unscrupulous lenders.[1]

Buy Now Pay Later is a growing trend that offers both benefits and drawbacks to consumers. It provides a convenient and flexible way to make purchases, but it also has the potential to lead to debt and impact credit scores. While the growth of BNPL has had positive impact on the economy, it is important for consumers to understand the risks and make informed decisions when using this type of credit. Further research is needed to understand the long-term impacts of BNPL on consumers and the economy, as well as to ensure that appropriate regulations are in place to protect consumers from abuse and exploitation. Future outlook and potential impact of BNPL on the economy and consumer finance. Many BNPL companies have adopted unsustainable business models that are heavily reliant on high-interest loans and fees. This has led to financial instability, high default rates, and ultimately, the failure of some BNPL companies.

Competition in the BNPL market is becoming increasingly competitive, with many new companies entering the space and vying for customers. This competition has put pressure on BNPL companies to offer more favorable terms and conditions, making it difficult to generate profits and leading to the failure of some BNPL providers. BNPL companies that do not properly manage credit risk can suffer from high default rates and significant financial losses. This can result in the failure of the company and potentially harm the financial well-being of its customers. Regulatory concerns are another factor which companies are subject to a range of regulations and laws including consumer protection and data privacy regulations. Failure to comply with these regulations can lead to hefty fines, legal proceedings and ultimately the failure of the BNPL provider.

Mismanagement of data can occur when the companies collect and store large amounts of sensitive customer data, including personal and financial information. Mismanagement of this data can lead to data breaches and identity theft, which can seriously harm the reputation of the BNPL company. BNPL providers that offer high-interest loans or flexible repayment options can often result in customers accruing unmanageable debt. This can lead to high default rates, and financial instability. Lack of transparency about fees and interest rates, which may lead to confusion and dissatisfaction among customers. This can result in customers abandoning BNPL services altogether and negatively impacting the success of the company.

BNPL providers are also vulnerable to economic downturn, as consumers may be less likely to take on additional debt during times of financial uncertainty, this can result in decreased revenue and increased default rates, putting pressure on BNPL companies and potentially leading to their failure.

Taking these factors into account, we have given a viewpoint about the challenges faced in India, while also discussing potential innovative and unique solutions along with the collaboration with stakeholders to overcome these challenges and barriers to entry and drive a bigger adoption of Buy Now Pay Later payment methods into the Indian market.

II. CREDIT CARD VS BNPL

The appeal of buy-now, pay-later (BNPL) loans from companies like Slice, Amazon Pay Later, and Jupiter is skyrocketing, and it's not hard to understand why. This popular new credit type enables customers to pay for their online purchases over the course

of a few weeks or months in a number of interest-free instalments. Due to the seamless nature of approval within the checkout page of an online store, it is typically fast and simple. What are the benefits of BNPL loans?

- **No interest:** BNPL (lenders) generally do not charge interest on instalment payments. That's a major draw for consumers.
- **No late fees:** Some BNPL lenders do not charge late fees, but others do. It's necessary to understand the terms of the loan before you finalise a transaction.
- **Easy repayment structure:** Most BNPL loans are designed to be paid off in four instalments over a matter of weeks. After that loan is paid, it disappears, there's no revolving credit line like there is with a major credit card.
- **Quick approval:** Online shoppers can be approved for a BNPL loan in a very short time. What are the risks of BNPL loans?
- **Unsustainable debt:** The CFPB warns that the ease of taking out a BNPL loan may lead consumers to take out too many loans at once and accumulate more debt than they're able to repay.
- **Credit score damage:** Credit bureaus like Equifax are beginning to include BNPL data into credit reports. This could be a good thing for many (a track record of on-time payments will boost your credit score), but it also means a late BNPL payment could damage your score and make it more difficult and more expensive to borrow down the line.
- **Hidden interest:** If you finance a BNPL loan with a credit card that you don't pay off in full, you'll end up paying interest on a supposedly "interest-free" transaction. [2]
- **Data privacy issues:** "Buy Now, Pay Later lenders can gather extraordinarily detailed information about your purchase behavior, in a way traditional cards cannot," CFPB Director Rohit Chopra recently warned. Lenders can use that data to encourage users to spend and borrow more, he said. Fewer consumer protections than credit cards: BNPL loans are a very recent innovation. Regulations surrounding these products aren't as robust, and consumers have fewer protections when something goes wrong.

CREDIT CARDS:

A credit card has become an indispensable part of our lives, with its ease of use and convenient pay-back options. The discounts, offers, and deals that a credit card offers are unmatched by any other financial products and spell a bonanza for the wise user. However, credit cards can become debt traps if not used correctly, or if you spend more than you can repay when the bill comes around. What are the Benefits of Credit Cards?

- i. Easy access to credit the ability to easily access credit is a credit card's primary benefit. You can use a credit card now and pay for your purchases later since credit cards operate on a deferred payment basis. Every time you swipe, no money is taken out of your account, thus your bank balance is not diminished.
- ii. Building a line of credit, you have the option to increase your credit line with credit cards. This is crucial because it enables banks to see your active credit history depending on how you use and repay your cards. Your credit card is crucial for any future loan or rental application since banks and other financial institutions frequently use credit card usage to assess a potential loan applicant's creditworthiness.
- iii. EMI facility - You can choose to put a major purchase on your credit card as a way to defer payment if you don't want to use all of your funds on it. Additionally, you have the option of paying for your purchase in several monthly instalments to avoid paying it out all at once and depleting your bank account. Most of credit cards are loaded with promotions and rewards. When you swipe your card, you can earn rewards points that can be redeemed for cash back, air miles, or credit towards your outstanding card balance. In order to help you save money, lenders also provide discounts on purchases made with a credit card, such as on plane tickets, vacations, or significant purchases.
- iv. Flexible credit an interest-free period, which is a time frame during which you won't be charged interest on any outstanding credit, is a feature of credit cards. If you settle the entire sum due by the credit card bill payment due date, you can obtain free, short-term credit for periods of 45 to 60 days. [3]

RISKS INVOLVED WITH USING CREDIT CARDS:

- i. **Minimum due trap:** The minimum due amount that is shown at the top of a bill statement is the largest drawback of a credit card. Many credit card users are duped into believing the minimum payment is the full amount they must make, when in reality, it is the least amount the corporation requires you to make in order to keep obtaining credit facilities. Customers end up thinking their charge is small and spending more as a result, accruing interest on their balance, which over time may grow to be a sizable and unmanageable amount.

- ii. **Hidden costs:** Credit cards feature a multitude of hidden fees that can significantly increase the entire cost, despite their first appearance of being easy and straightforward. Taxes and costs associated with credit cards include late payment fees, membership fees, renewal fees, and processing fees. Your credit score and future credit prospects would suffer if you missed a card payment or made multiple late payments, which might potentially result in a reduction in your credit limit
- iii. **Easy to overuse:** Since your bank balance is constant while you have revolving credit, you could be tempted to charge all of your purchases to avoid realising how much you owe. This could result in overspending and debt that you are unable to repay, starting a cycle of debt and excessive interest rates on your subsequent payments.
- iv. **High interest rate:** If you do not clear your dues by your billing due date, the amount is carried forward and interest is charged on it. This interest is accrued over a period of time on purchases that are made after the interest-free period.
- v. **Credit card fraud:** Though not very common, there are chances you might be victim of credit card fraud.

SWOT Analysis of Buy Now Pay Later:

Strengths: The rising demand for no EMI instalment-based payments The COVID 19 pandemic raised unemployment rates and brought about a generalized sense of financial instability. Consumer purchasing habits changed as a result of pandemic-induced lockdowns; people now prefer credit purchases, deferred payments, or tiny instalments. These features enable clients to stretch out their costs, ensuring their financial stability. Due to interest-free repayment choices, a rise in millennials' appetite for high-end goods, and an increase in merchants using the BNPL model, it is projected that the trend of deferred payments will continue.

Weaknesses: High late fees on delayed repayment: As was already indicated, BNPL enables the customer to buy the item and pay for it over time in a series of small instalments. The payment plans are tailored to the products that have been purchased. Payment defaults result in significant late fees, which could impede market expansion. For consumers on limited monthly budgets, BNPL is a less alluring short-term financing option due to higher fees (2%–6% of the purchase value). The short-term nature of BNPL payments hinders credit score growth for the consumer. The BNPL model does not include the benefits that come with credit cards, such as rewards programs and cash backs.

Opportunities: Increasing adoption by retailers the lockdowns caused by COVID 19 saw a considerable increase in online buying. Online buying was made simple and contact-free by platforms. Online stores were used for all purchases. Online marketplaces don't offer EMI payment options for orders over a particular threshold. This BNPL approach is unique to the online retail sector. Online buyers of high-end goods increased as a result of the e-commerce boom. Brick-and mortar competitors were losing market share to online platforms. A rising number of merchants are implementing the purchase now pay later approach in order to compete with the online distribution platforms.

Threats: Integration of BNPL is expensive The BNPL model integration into the retailer's local checkout procedures calls for pricey specialized equipment and technological know-how. Small and medium-sized retailers cannot afford the integration, excluding them from the market and preventing them from expanding. [4]

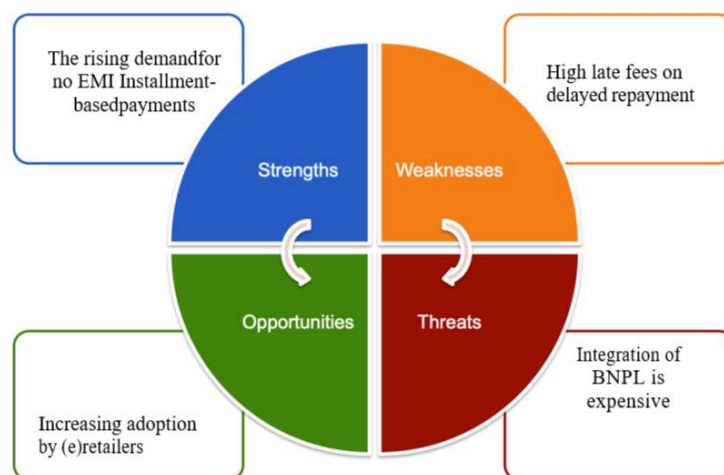


Figure 2.1 SWOT Analysis of Buy Now Pay Later

SWOT Analysis for Credit Card:

Strengths: Strong Consumer Banking: The credit card issued by the bank is compatible with all domestic and international Visa/Master cards, Visa Electron/Maestro, and American Express cards. This is one of the reasons why credit cards are the most popular for shopping and online transactions.

Weaknesses: Underperforming Sectors: Some of the bank's product categories are not performing as expected and have limited market reach.

Limited Market Size: The bank primarily serves high-end clients.

Opportunities: Increasing Corporate Banking Sector: Companies, both large and small and medium sized, are expanding at a rapid pace.

Efficient Debt Settlement: When compared to government banks, credit cards' bad debt portfolio has improved and its bad debt recovery rate is high.

Threats: The number of non-banking financial companies and new-age banks in India are growing. Therefore, there will be introduction of more fin-tech companies which may hinder the growth of credit cards payments.

Increasing Competition: Government banks are attempting to modernize to compete with private banks. [5]

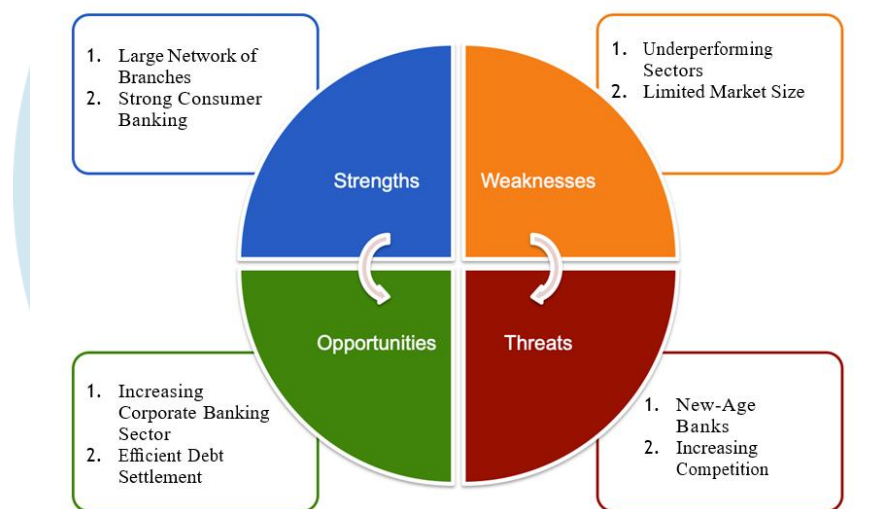


Figure 2.2 SWOT Analysis of Credit Card

III. OBJECTIVES OF THE STUDY

The following points are the objective of the study of how Buy Now Pay Later affected the market in India.

- To understand the concept of BNPL and its revolution in India.
- To analyze the market size and growth potential of BNPL in India.
- To examine the impact of BNPL on consumer behavior and spending patterns.
- To identify the challenges and opportunities faced by BNPL providers in India.
- To study the regulatory framework and guidelines governing BNPL services in India.
- To evaluate the risks associated with BNPL for both consumers and providers.
- To suggest measures to address the challenges and risks associated with BNPL in India.

IV. METHODOLOGY

- For this analysis, we surveyed 60 Indian users and non-users of companies that offer Buy Now, Pay Later services.
- With online tools like Survey Swap and Survey Monkey Anywhere, the survey responses were collected.
- Some of the responses were also gathered in offline mode, that is, by speaking with them in person.
- In addition to the poll, we examined certain academic journals, research papers, and official government reports to learn more about how Buy Now Pay Later services operate in India.

V. BUSINESS MODEL OF BNPL

One of India's fastest expanding sectors in recent years has been Buy Now Pay Later sectors. The Buy Now Pay Later market has been expanding so quickly that it reached a staggering 569% growth rate in 2020 and a 637% growth rate in 2021. However, on June 20, 2022, the Reserve Bank of India released a statement in India that rocked the Buy Now Pay Later industries as a whole. All non-bank prepaid wallets and prepaid cards were forbidden from adding credit lines to these platforms as a result of this notification. Indian startups like Slice, Jupiter, Simpl, and others have up till now been instrumental in advancing financial

inclusion & digitalization in India. The question is now: What was lacking with Buy Now Pay Later Industries? Although Buy Now Pay Later industries were expanding so quickly, why does the RBI want to impede their progress?

When the relationship between income and ticket size in the Indian market is examined, it becomes clear that the majority of auto loans are given to individuals with minimum average annual incomes of Rs. 3–4 lakhs and ticket sizes of Rs. 7–9 lakhs, while the entry-level credit card is given to individuals with average annual incomes of more than Rs. 1.5 lakh with a purchasing power of 30,000–45,000 rupees. According to figures compiled by the Indian Finance Ministry, only 3% of the country's population had credit cards, with the remaining 97% not having them. The Buy Now Pay Later enterprises entered the market at this point after recognizing the opportunity. These Buy Now Pay Later businesses function like credit cards' EMIs. For instance, if a person who is not a working professional wants to acquire a mobile phone for Rs. 10,000 but neither has the necessary funds nor a credit card, they may be unable to do so. It is impossible for this person to complete this transaction given their current financial situation. This is where Buy Now Pay Later corporations step in. The bill is divided into 4 parts by the Buy Now Pay Later firms, and the consumer must pay Rs. 2500 per month for the following 4 months with no interest if the bill is paid on time. Now, the question is how these Buy Now Pay Later companies earn money when they charge 0% interest?

When we look at the transaction in the aforementioned example, we can see that despite the client not having a credit card, having inadequate funds, and having little purchasing power, a mobile phone costing Rs. 10,000 suddenly became affordable. The mobile phone, which originally cost Rs. 10,000, started to become more accessible to hundreds of other people around the market after being promoted by Buy Now Pay Later companies, exactly as this one consumer. In this way, Buy Now Pay Later enterprises have improved market affordability, sales potential, and the opportunity to sell high ticket products. The Buy Now Pay Later enterprises start to turn a profit at this point when the market has had such a significant expansion. According to the example above, when a customer pays Rs. 10,000 for a Buy Now Pay Later firm, the business pays Rs. 8850 to the mobile phone provider and keeps Rs. 1150 as the commission for the sale of the product. Again, if the consumer pays late, this Buy Now Pay Later corporation will charge extra interests in the form of a "penalty," which also results in a profit for the business.

With the help of this innovative business model, the seller may attract more clients, the clients can buy the goods even with little funds, and fin-tech firms can profit. But why does the Reserve Bank of India choose to curtail Buy Now Pay Later enterprises' prosperity, despite such a fantastic model? This requires a closer exploration of a payment ecosystem, the PPI, or pre-paid instrument. The major participants in this included Fin-tech businesses and the non-bank stakeholders.

Together, these two important parties produced a product for the Fin-tech company, such as a card (often resembling a credit card). This is due to the fact that a fin-tech company cannot start a prepaid instrument on its own since these fin-tech companies lack an RBI license for prepaid instruments. Therefore, to issue their product, these fin-tech companies worked with non-banks. As a result, a consumer might utilize these fin-tech credit cards without any limitations. The Buy Now Pay Later market's true issues and dark side first emerged at this point.

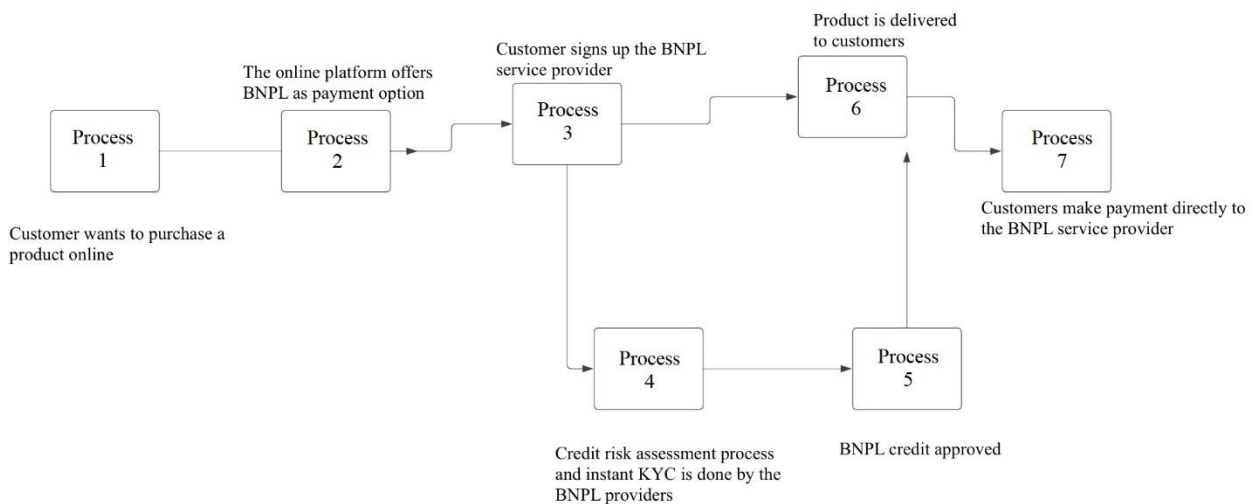


Figure 5.1 Flowchart of BNPL Business Model

The majority of those who are eligible for the Buy Now Pay Later features are those without credit cards, which indicates that they are more likely to be younger than 25 years old and to earn less than Rs. 25000 per month. Here, there was a very real possibility that the credit line would be extended to persons who might not be financially responsible or lack funds. [6]

Due to reckless usage, the Buy Now Pay Later firms trap people in debt, and this is evident in the overseas markets. One in three US citizens who utilize Buy Now Pay Later services have reportedly missed one or more payments, according to news sources. Among them, 70% of the consumers reported a drop in their credit scores. [7]

The order value of the customers is significantly increased by these Buy Now Pay Later features. Affirm Holdings, a US-based Buy Now Pay Later company, claims that it has increased average order value by 85%, whilst Klarna, a Swedish-based Buy Now Pay Later company, claims that it has increased average order value by 40%. Clearly, the convenience that Buy Now Pay Later offers combined with its facility exceed the users' budgets. [8]

These three trajectories strongly imply that India could also experience the same results. These are the main reasons that the RBI has forbidden these businesses from providing credit loaning into their prepaid instruments. [9]

VI. SURVEY ANALYSIS

Data Analysis of the Buy Now Pay Later Survey:

The survey has a total of 60 responses. The survey was taken randomly and the number of males and females are equal in number.

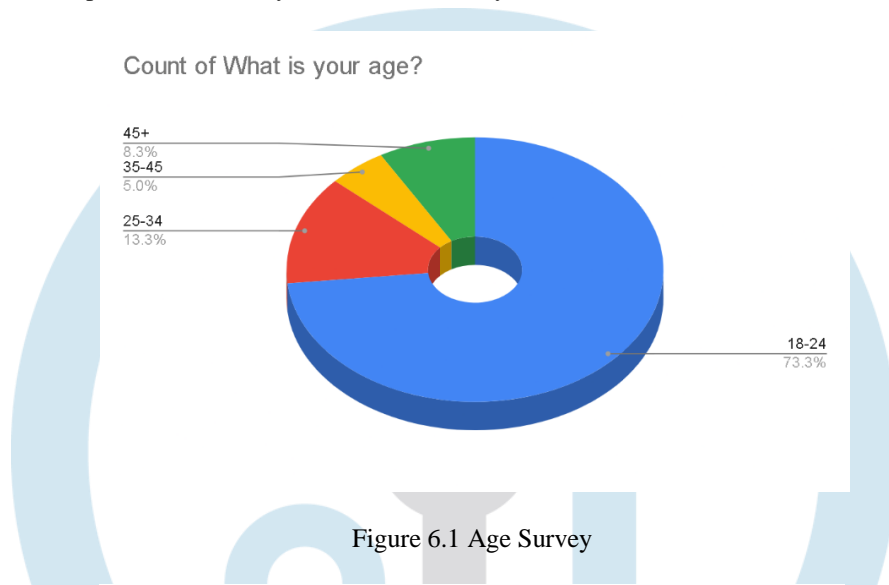


Figure 6.1 Age Survey

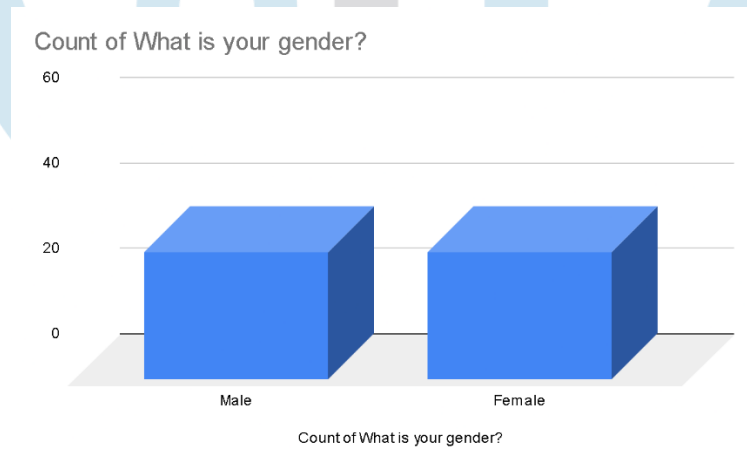


Figure 6.2 Gender Survey

- Most of the people surveyed belonged to the younger generation.
- There are equal number of males and females in the survey.

Count of What is your occupation?

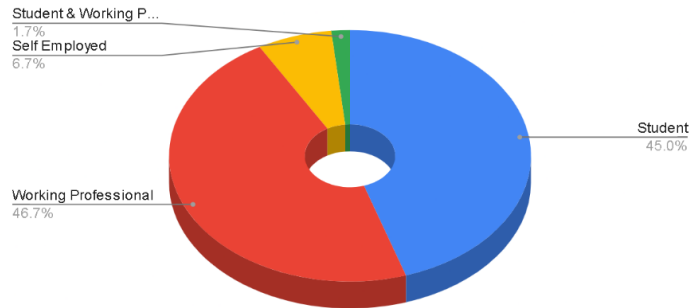


Figure 6.3 Occupation Survey

Count of Have you ever used a Buy Now Pay Later (BNPL) payment option for online shopping?

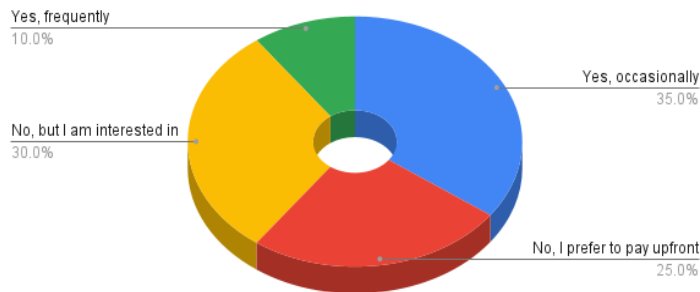
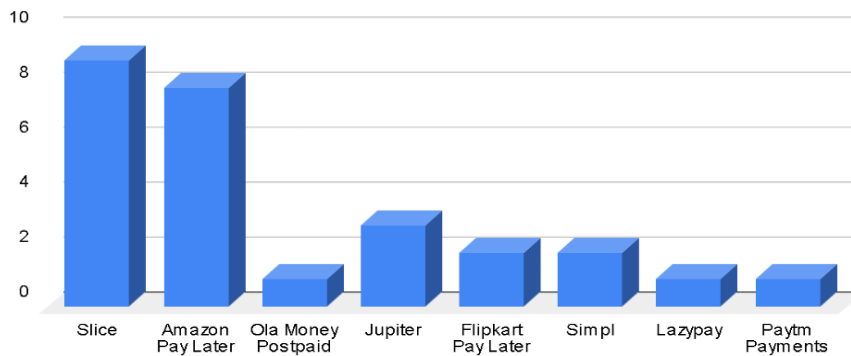


Figure 6.4 Usage of BNPL Survey

- Very few people use BNPL option for payment.
- Only 27 out of 60 people surveyed use BNPL option as payment method.
- 18 out of 61 people are interested in the BNPL option but they have not used it.
- The majority of people prefer to pay using credit cards.
- Majority People who use BNPL are working professionals. 19 out of 27 people who use BNPL are working professionals or self-employed.
- Only 9 out of 27 are students who use BNPL.
- 13 out of 27 people who use BNPL are females and most of them belong to the working class and the rest are males. 8 out of 14 males who use BNPL belong to the working class or are self-employed. The rest of the males are students.
- 12 out of 18 people are students who are interested in using BNPL.

Count of Which BNPL service provider do you use? If you have not used any, please mention NA.



Count of Which BNPL service provider do you use? If you have not used any, please mention NA.

Figure 6.5 BNPL Service Provider Survey

- Since the majority of the BNPL users belong to the working class, there is good financial knowledge among people and as a result the problem of debt is less.
- BNPL's business in India has also grown rapidly in recent years, with several companies offering similar services, including Slice and Amazon Pay Later. According to a report by RedSeer Consulting, the value of the BNPL business in India is expected to reach \$7.3 billion in 2020 and \$30 billion by 2025.
- Slice has raised substantial capital and has over 5 million users on its platform. It offers a variety of payment options and features, including grace-free EMI options, virtual and physical cards, and cashback rewards, among others.

Count of What motivates you to choose a BNPL payment option for your online purchase?

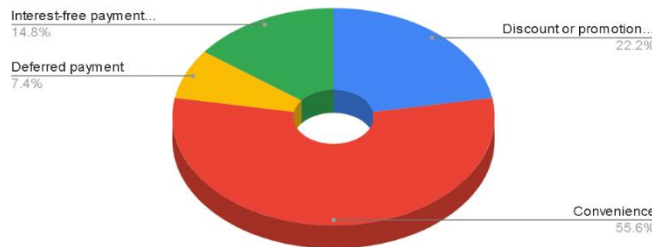
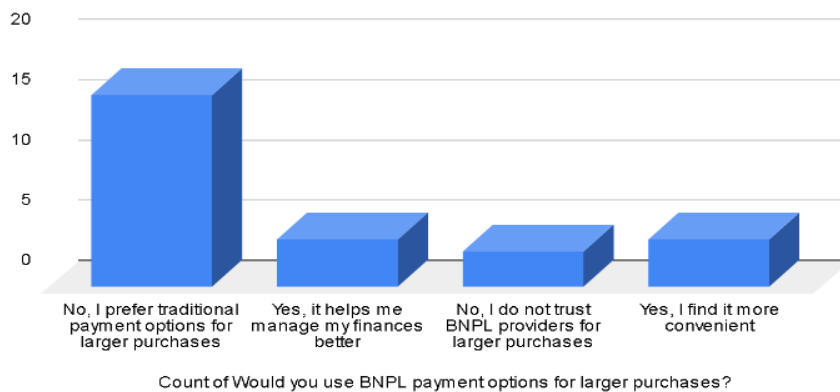


Figure 6.6 Motivation of Using BNPL Survey

Motivation For Using BNPL

- **Flexibility:** BNPL services offer the flexibility to make purchases without having to pay the full amount upfront, which can be motivating to those people who want to spread out their payments.
- **Convenience:** BNPL services offer a seamless checkout process that eliminates the need to enter credit card information for every purchase.
- **Budgeting:** BNPL services can help people budget for large purchases by splitting them down into more simple and smaller instalments.
- **Rewards:** Some BNPL services offer cashback rewards or other incentives for using their service.

Count of Would you use BNPL payment options for larger purchases?



Count of Would you use BNPL payment options for larger purchases?

Figure 6.7 Using BNPL for Larger Purchases

BNPL for Large Purchases

- **Easier budgeting:** By breaking down a large purchase into smaller, more manageable payments, BNPL can help consumers budget more effectively.
- **Lower upfront costs:** BNPL allows consumers to make large purchases without having to pay the full amount upfront, which can be beneficial for those who don't have the cash on hand.
- **Potentially lower interest rates:** Some BNPL providers may offer lower interest rates compared to traditional credit cards, making them a more affordable option for financing large purchases.
- **No collateral required:** BNPL generally does not require collateral, such as a house or car, which can make it a more accessible option for those who do not have assets to use as collateral.
- **Longer repayment terms:** Most credit cards offer longer repayment terms than BNPL services, which can make managing overdue payments easier. For example, many credit cards allow you to pay off your balance over months or years.

- **Higher credit limits:** Most credit cards have higher credit limits than BNPL services, which is good for large purchases. With sufficient capacity, you can pay your big purchases with your credit card without using BNPL.
- **Rewards:** Many credit cards offer rewards that allow you to earn cash, points or miles when you shop. Depending on the credit card, these rewards can be substantial and help cover the cost of major purchases.

Count of Have you experienced any negative consequences as a result of using BNPL payment options?

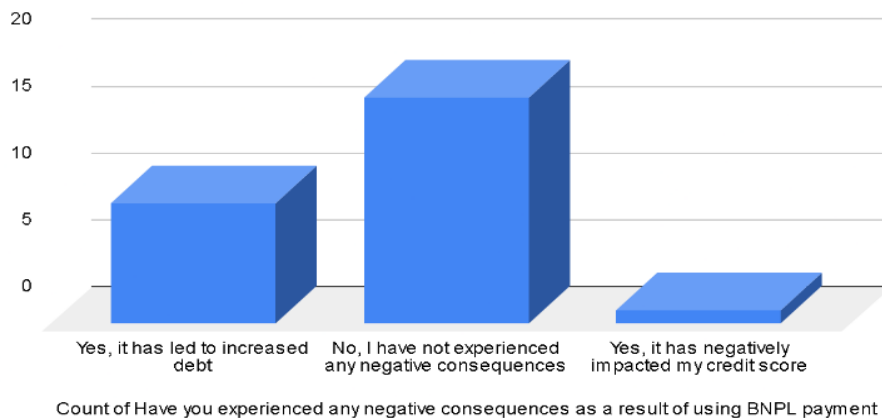


Figure 6.8 Negative Consequences Experienced In BNPL

- **Fees:** BNPL services may also incur fees, such as late fees or transaction fees, which may increase the overall cost of using the service and incur additional charges.
- **The temptation to overspend:** The ease and convenience of using BNPL services can also encourage people to overspend, resulting in increased debt. It is likely that customers will not be able to afford or use BNPL services improperly.
- **Impact on credit scores:** If a customer does not pay on time, BNPL services may report this information to the credit bureaus, which may adversely affect their credit score. A lower credit score can make it harder to get a loan in the future and result in higher interest rates and fees.

VII. CONCLUSION – IMPROVEMENTS

BNPL is a new form of payment system, and most people are alien to the concept. BNPL is clearly used by young working professionals. Most of the students are also interested in using BNPL, but they would not be able to afford it or risk being willing to stay in debt. People who use BNPL do not use it for larger purchases as it would impose them with more debt. BNPL is convenient for smaller purchases due to deferred payment or interest free BNPL payment. The older population does not use BNPL as they use credit cards (We did not survey people older than age 50 plus as most of them are technophobic and are accustomed to using credit cards or they prefer payment in cash).

Methods To Improve the Scope of Buy Now Pay Later in India

A better marketing strategy should be promoted to increase the number of BNPL users. Introducing better offers and better deals via the BNPL system should be introduced. Most importantly, BNPL companies must acquire PPI license on their own legally without the help of other third parties. The license would help BNPL companies to stand against challenges posed by RBI.

Various research shows that men are equally likely to be shopaholic compared to women. Therefore, better offers and better prices should be introduced in the segment of electronics, cosmetics, clothing, etc. Better education of BNPL schemes should be delivered via the mobile apps of BNPL. Better financial education must be given to especially STEM students in India. Marketing strategies must be focused on the working professions rather than students.

Customer Development: The BNPL experience must be relevant and relevant to customers. Improving the user experience can help drive adoption by providing easy sign-up, instant approval, and seamless payments.

Partnering with retailers: Partnering with retailers to offer exclusive discounts and deals to BNPL users helps attract more customers and expand the BNPL.

About Concerns: Some consumers may be concerned about hidden fees or its impact on their credit score. Addressing these issues through transparent communication and education can help build trust and increase adoption.

By following this process, Buy Now Pay Later feature may become widespread in India as a more convenient payment option for customers. [10]

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