



Financial Literacy and Buy Now Pay Later (BNPL): The Effect of Financial Awareness on Spending Habits

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Abstract

Buy Now Pay Later (BNPL) services are a common source of payment for many individuals nowadays. The popularity and the usage of BNPL services in India is growing at a rapid pace. For safe usage of BNPL services, knowledge and implications about BNPL is crucial. This study assesses the relationship between BNPL usage and financial literacy of users in India. Primary data was collected from 42 participants from Gujarat, India using questions from the Financial Literacy and Inclusion in India survey 2023 about financial literacy which was conducted by the National Institute of Securities Market. This measured financial literacy across three parameters: financial knowledge, financial attitude and financial behaviour. Statistical techniques such as t-tests, correlation and regression analysis were used to analyze and draw inferences from the data. The analysis showed similar levels of financial literacy among both women and men. A strong positive correlation between financial literacy and BNPL knowledge was found indicating the importance of financial literacy in the responsible usage of BNPL services. Regression analysis further supported the role of financial literacy in high BNPL knowledge. The findings highlight the need for initiatives in schools and other institutions for educating people on financial literacy which will help in making rational decisions about services such as BNPL. Specific financial literacy initiatives for different demographics will help to provide an effective solution to prevent overspending or reckless spending due to BNPL usage. Boosting the overall financial literacy of people will lead to better financial decisions, leading to better financial conditions and boosted welfare for citizens.

Keywords: *Buy Now Pay Later; Financial Literacy; Financial Behaviour; Financial Attitude; Financial Knowledge*

Introduction

Technological advancements are an integral part of the financial sector as it continues to shape and grow how individuals manage and access finances. One such advancement gaining popularity is buy

now pay later (BNPL) services (Bagniewski et al., 2024). Buy now pay later allows consumers to make payments in installments based on a predetermined payment schedule without requiring a credit card by the use of an online lending method (Aravind et al., 2023).

The Indian BNPL market consists of card-based providers like Slice and Postpe, e-commerce and travel providers like Amazon Pay, Flipkart Pay Later and fintech startups providing app based services like Simpl, LazyPay and ZestMoney. Currently, LazyPay is the largest provider, serving 39% of India's BNPL users followed by Amazon Pay Later and ZestMoney (Rajput, 2022). These services are built right into shopping apps and websites, letting people buy what they want immediately and pay for it later in smaller, interest-free amounts (Biradar & Reddy, 2025). This setup is attractive to young people as it's simple, flexible, and fits well with their fast-paced lifestyles (Biradar & Reddy, 2025). Majority of BNPL users in India are new credit urban users i.e. Millennials (35-44) and Gen Z (18-35) who make up 60-75% of customers and ~40% of transaction value (Mordor Intelligence, 2024).

The growth of BNPL has had a significant impact on the economy in India, as it increased consumer spending and provided a new source of credit for consumers (Aravind et al., 2023). BNPL has also helped to create new jobs and provided another revenue source for retailers (Tamara & Agustina, 2024). While BNPL may offer instant rewards, it can create financial trouble down the line especially for those who don't fully understand the terms, extra fees, or how delayed payments work. Many young users lack strong financial knowledge, and BNPL encourages habits like impulsive shopping, emotional spending, and growing debt (Biradar & Reddy, 2025). It has also increased the growth of consumer debt and potential for abuse of exploitation by unscrupulous lenders (Bagniewski et al., 2024). BNPL increases access to credit and reduces the financial exclusion (Waliszewski et al., 2023). However, irrational use of BNPL, similar to other credit forms, introduces financial risks (Waliszewski et al., 2024).

While the growth of BNPL has had a positive impact on the economy, it is important for consumers to understand the risks and make informed decisions when using this type of credit (Aravind et al., 2023). 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 (Aravind et al., 2023). More research is required 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 (Aravind et al., 2023).

The knowledge and skills for managing finances with the aim to improve welfare tends to refer to financial literacy (Rodziyah et al., 2024). Less effective financial management is likely to occur if the financial knowledge of the consumers is low which may lead to consumptive behaviour in the form of buying desired items over household needs (Rodziyah et al., 2024). Individual welfare, managing finances, financial planning, how to achieve financial goals need to be understood by every individual. Based on previous research (Lusardi & Mitchell, 2014), Financial literacy plays a crucial role in encouraging responsible financial behaviour (Rodziyah et al., 2024).

By providing financial literacy, individuals can understand risky credit behaviour (e.g. conspicuous consumption, compulsive purchases, and credit abuse) in the future (Aina & Chalid, 2023). Financial literacy is considered a significant "investment" in financial management due to the costs incurred from unwise financial decision-making that can significantly affect an individual (Aina & Chalid, 2023). A good level of financial literacy in individuals can positively influence various aspects of financial behaviour and help individuals fight negative financial trends, such as excessive debt levels (Aina & Chalid, 2023). A study by Liu & Zhang (2021) found a significant negative relationship between financial literacy and risky credit behaviour. This was also found in a study by Lebdaoui & Chetoui (2021), where financial literacy significantly negatively correlated with credit attitude (Aina & Chalid, 2023).

While there is a substantial amount of research on Buy Now Pay Later (BNPL) services especially focusing on the younger demographic, there is a lack of information and research regarding the relationship between BNPL services and financial decision making factors such as financial literacy. To understand consumer behaviour, it is crucial to understand the factors influencing financial management and decision making. The popularity of BNPL services in India is increasing significantly especially among young adults leading to concerns regarding the impulsive buying habits, debt traps and misuse of credit caused by the lack of financial awareness among consumers. To help avoid such effects, it is crucial to understand whether financial literacy can act as a solution.

Methodology

This study aims to find the relationship between the financial literacy of consumers and use of Buy Now Pay Later services among consumers. Specifically, the focus is to understand how different factors such as financial knowledge, financial attitude and financial behaviour affect the usage of Buy Now Pay Later services among users. This research uses a quantitative approach wherein data collection method is a survey designed to assess financial knowledge, financial attitude and financial behaviour of respondents.

Tools Used

This study adopted the use of questions from the Financial Literacy and Inclusion in India conducted by the National Institute of Securities Market (2019) (National Institute of Securities Market, n.d.). To make these questions fit the specific research objective of the study, certain modifications were made which aimed to enhance the contextual relevance of the study. The Financial Literacy and Inclusion survey of India aimed at analysing the financial behaviour, financial knowledge and the financial attitude of people in India through mathematical questions relating to financial knowledge and questions with a likert rating scale from 1 to 5 for financial behaviour and attitude. A higher score in the survey indicates a higher level of financial literacy among the participants of the survey. The financial attitude scale assesses the financial attitude by using a likert scale from 1 to 5 by asking participants if they tend to live for today over the future, if they find it more satisfying to spend money rather than save and if they believe money is meant to be spent. Along with the questions from the Financial Literacy and Inclusion survey, the research contains a questionnaire about the usage of BNPL services for consumers that have used the BNPL services in the past 12 months and a questionnaire pertaining to the consumers' knowledge about BNPL services.

Sample

Most adults or elders serve as decision makers in most families in India, the youth has started to become an important part of the financial decision making process for their personal finances.. A total of 41 participants were taken as the basis of the analysis for the study. The demographic revealed an almost equal number of male and female participants with 51.2% of the participants being female and 48.8% of the participants being male. While there were responses across multiple age groups, almost 50% of the responses came from the youth population (18-24 years old). The education level of all the participants varied significantly with an almost equal number of responses across all education levels. Over 90% of the responses gathered were from employed, full time working participants with almost 70% of the participants worked as salaried private employees.

Data Collection Procedure

The data was collected through a self-administered survey conducted through the use of google forms. Google Form is a convenient platform that can be accessed by anyone owning a device. It is user friendly that allows a wide audience to take the survey. To ensure proper understanding and data collection from participants from a less literate background, the survey was read out to participants in Hindi and local languages like Gujarati. This was done to ensure that the questions were answered accurately and remove errors or random answers without proper understanding which would have happened due to a language barrier. For participants without access to devices like mobile phones, the survey was conducted by reading out the questions and allowing the participant to answer accordingly.

Ethical Considerations

The data collection process was ensured to be done ethically. Before asking the participants to take the survey, they were briefed about the purpose, procedure and the general topic. Along with this, the participants were assured of the confidentiality and anonymity of their responses. The participants were informed that the survey was strictly voluntary and the participant could withdraw at any given point during the survey process. All these terms were explained digitally to participants directly taking the survey on Google Forms and the consent was presented digitally at the beginning of the survey.

Data Analysis Strategy

The analysis combined descriptive and inferential statistics to examine financial literacy and BNPL usage and awareness. First, graphical analysis (bar charts and frequency distributions) illustrated patterns such as gender differences in financial knowledge, attitudes, and behaviours, as well as the types of purchases made with BNPL services.

To test for group differences, independent t-tests through the use of the XLminer Analysis Toolpak extension in Google Sheets compared male and female participants across financial literacy subscales. Pearson's correlation coefficient was used to identify the relationship between BNPL usage and financial literacy. This allowed for measuring whether lower literacy was linked to higher reliance on BNPL.

Finally, a simple linear regression tested the predictive effect of choice overload on BNPL usage. The regression output provided coefficient estimates, significance values, and R^2 , showing how much variance in BNPL reliance could be explained by choice overload. By combining graphical trends, correlation, and regression analysis, this strategy ensured both a clear visual representation of the data and statistical testing of key hypotheses.

Results and Discussion

This section reports the findings of the survey analysis, examining patterns in financial literacy dimensions and their association with BNPL usage, followed by a critical discussion of the implications in light of existing literature. The results have been presented both through descriptive statistics and visual representation of statistics through graphs.

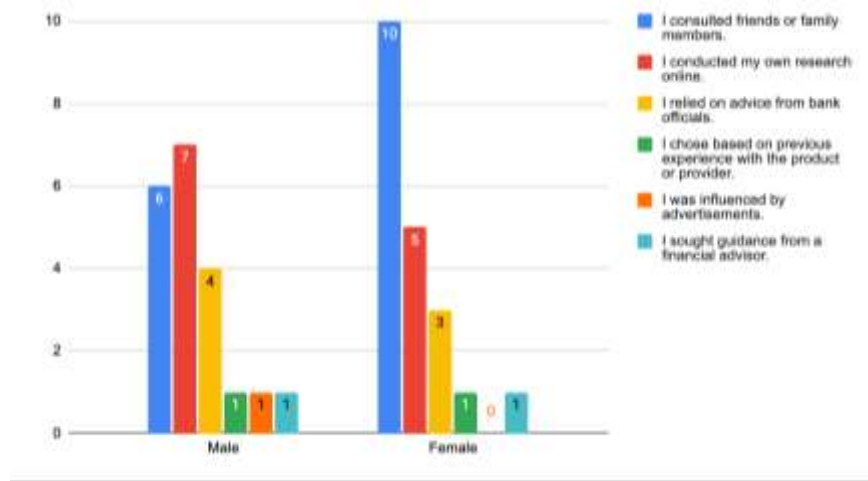


Figure 2: Source of Investment Advice based on gender (N=40)

Based on the analysis of the survey, investigation about the patterns in financial literacy and how its relation to BNPL usage was done. Figure 1 shows that the most used source of investment advice for men was conducting their own research online (35%) followed by consulting family or friends (30%) whereas women mostly consulted friends or family regarding investment advice (50%) and the second most popular was conducting their own research online (25%). In both cases, the third most popular source of investment advice was from bank officials. Similar findings were found in an Iowa State University study aimed to find how the drivers behind investment differ by gender, specifically examining the dependence of men and women on different sources of information. The study found that women tend to favor low-risk strategies and seek advice from trusted professionals instead of self-research (Ferlazzo & Hira, 2006).

Table 1: Independent t-test analysis of sub-scales (Financial Knowledge, Financial Attitude, Financial Behaviour) based on gender (N=42)

Variable	Categories	N	Mean	SD	t	p value
Financial Knowledge	Male	21	6.95	0.97	-4.19	0.00*
	Female	21	5.48	1.29		
Financial Attitude	Male	21	3.37	0.99	0.52	0.61
	Female	21	3.51	0.77		
Financial Behaviour	Male	21	3.81	1.40	0.11	0.91*
	Female	21	3.86	1.31		

*p<0.05

Table 1 depicts that there is a difference between the financial knowledge for male (M= 6.95, SD= 0.97) and female (M= 5.48, SD= 1.29) given $t(42) = -4.19$ and $p < 0.05$. Conversely, the difference in the financial attitude was not significant between male (M= 3.37, SD = 0.99) and female participants (M= 3.51, SD= 0.77) given $t(42) = 0.52$ and $p > 0.05$. Similarly, the financial behaviour has no significant difference for male (M= 3.81, SD= 1.40) and female (M= 3.86, SD= 1.31) given $t(42) = 0.11$ and $p > 0.05$. This shows that both genders show similar results in terms of financial behaviour and financial attitude

but men show a higher level of financial knowledge than women. A study on financial literacy found that men perform better than women in questions about financial knowledge but perform almost the same in terms of financial behaviour (Bucher-Koenen et al., 2017).

Table 2: Correlation of between financial behaviour, financial knowledge, financial attitude and financial literacy with knowledge about BNPL services (N=42)

Variables	Financial Knowledge	Financial Behaviour	Financial Attitude	Financial Literacy	Buy Now Pay Later Knowledge
Financial Knowledge	1	0.12	0.29	0.74*	0.23
Financial Behaviour	0.12	1	0.63	0.72*	0.57
Financial Attitude	0.29	0.63	1	0.76*	0.51
Financial Literacy	0.74*	0.72*	0.76*	1	0.55*
Buy Now Pay Later Knowledge	0.23	0.57	0.51	0.55*	1

$p > 0.05^*$

After conducting a study on the relationship between financial literacy and BNPL knowledge, financial literacy and BNPL knowledge were found to be positively correlated, $r(40) = 0.55$, $p > 0.05$ showing that more financially literate individuals tend to have a better awareness of BNPL services. In the correlation analysis, all three metrics of financial literacy, that are financial behaviour, financial attitude and financial knowledge were found to have a positive correlation with financial literacy, $r(40) = 0.74$, $p > 0.05$ for financial knowledge, $r(40) = 0.72$, $p > 0.05$ for financial behaviour and $r(40) = 0.76$, $p > 0.05$ for financial attitude. This showed that higher financial literacy is associated with good scores across knowledge, behaviour, and attitude.

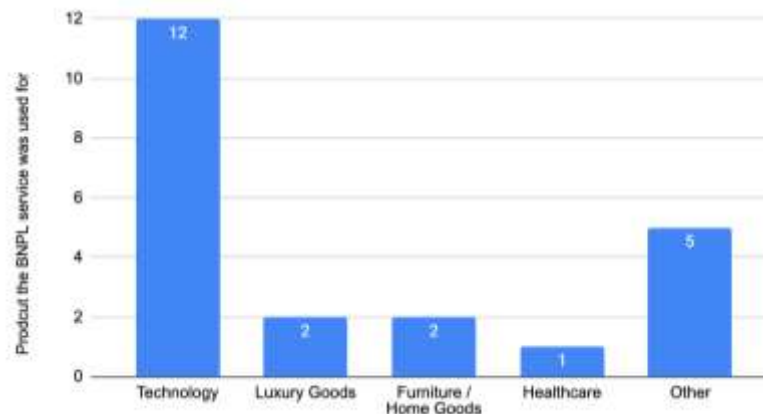


Figure 3: Product for which BNPL services were used for among BNPL user participants (N=18)

In figure 2, we can observe that the most common use of BNPL services for the purchase of technology based goods and services (~67%) followed by other unspecified items (~28%). The category BNPL were least used for was Healthcare with only one participant using BNPL services for healthcare. A study from global growth insights shows that the use of BNPL was the highest for electronics across different demographics (“Buy Now Pay Later (BNPL) Market Size, Share, Growth, and Industry Analysis, By Types (Online Channel, POS Channel) , Applications (Retail Shopping, Home Improvement, Leisure & Entertainment, Healthcare and Wellness, Education, Automotive, Fashion Garment, ,” 2024).

Table 3: Regression Analysis of the relationship between Financial literacy and BNPL usage (N=42)

Model	B	SE B	t	p
Constant	9.96	4.34	2.29	0.04*
Financial Literacy	0.85	0.33	2.55	0.02*
R ²			0.30	
F			6.51	

* $p < 0.05$

B = Coefficients

SE B = Standard Error

Table 3 shows the regression analysis was carried out with financial literacy as the independent variable. The predictive effect of financial literacy was confirmed, $b = 0.85$, $t(40) = 2.55$, $R^2 = 0.30$, $F = 6.51$, $p < 0.05$. It was found that financial literacy explains 30 percent of the variability in the scores of the respondents on the dependent measure.

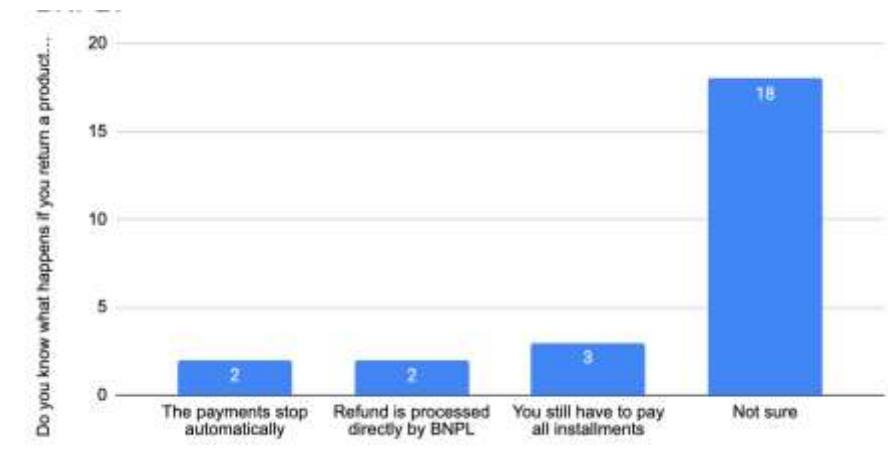


Figure 4: Awareness about return policies of BNPL services (N=25)

In figure 3, it can be observed that most people are unaware about basic information about BNPL services such as return policies. A few responses have selected the correct response (8%) about return policies of BNPL services but most participants are not sure about the return policy (72%) and a few have incorrect knowledge about the return policies (12%).

The study found that gender did not play a major role in the level of financial literacy except for the case of financial knowledge. The correlation analysis found that financial literacy is positively correlated with BNPL knowledge showing financial literacy leads to better awareness about BNPL services. BNPL services were used the most for products related to technology. Most people that have never used BNPL services were unaware of the implications or knowledge about BNPL services irrespective of their financial literacy.

Hence, the findings of the study can benefit policy makers, financial institutions, and educators in tailoring financial literacy programs with a gender-sensitive approach, promoting informed BNPL usage, and addressing gaps in consumer awareness. For instance, banks and fintech firms could use these insights to design clearer disclosures and educational campaigns, while schools could integrate digital finance awareness into curricula. These findings could benefit BNPL companies by helping them understand the lack of awareness that people generally have and the reasons for the same.

Conclusion

This study shows an attempt to find the relationship between financial literacy and Buy Now Pay Later (BNPL) usage among consumers in India. The study represents how the role of financial literacy shapes awareness and responsible use of BNPL services. Although there were no significant differences in the overall usage result between men and women, the general result shows that improving financial literacy could prevent impulsive buying and promote more responsible use of BNPL services. These findings should be looked at with caution due the limitations of the study.

Limitations

The small sample size could limit generalization and the self-reported data could lead to bias in the data. The study is limited to an urban demographic and lacks data from rural areas as well as the influence of different cultural aspects on BNPL usage and financial literacy. Further research could focus on analysis of the relationship on a larger scale with a larger sample size. Furthermore, specific demographics such as the youth can be targeted to develop a better understanding of the relationship between BNPL usage and financial literacy. Additionally, the role of financial education in schools and economic background can be taken into account on the usage of BNPL services in an emerging market such as India.

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