Impact Factor (SJIF): 6.126 E-ISSN: 2583-1615

International Journal of Research in Academic World

Received: 03/March/2025 **IJRAW:** 2025; 4(4):06-10 **Accepted:** 01/April/2025

Buy Now, Pay Later-Lifesaver or Debt Traps: A Research into the Legal Uncertainties, Consumer Risks and the Future of FinTech Lending

***1Dr. Malini N and 2Varshini Janardhana**

*1Associate Professor & HOD, Department of Commerce, SSMRV College, Bengaluru, Karnataka, India.

2Law Student, B.M.S. College of Law, Bengaluru, Karnataka, India.

Abstract

The past years have seen drastic implementations and developments in FinTech, the introduction of the model of Buy Now, Pay Later (BNPL) has received rapid growth due to its option enabling the consumers to purchase the products and services without having to make the full payments at the moment. The BNPL offers instant credit to consumers who cannot use traditional banking processes to claim loans. While the model enhances the financial handiness, the expansion of these developments has led to immense regulatory challenges and significant exposure of consumers to financial risks. The lack of a classification of-whether BNPL should be considered as a loan, credit service, or payment mechanism-has led to ambiguity in the regulatory frameworks, and, loopholes in consumer protection.

This article explores the legal uncertainties surrounding BNPL, with a prime focus on consumer protection-debt accumulation of consumers, financial transparency, and hidden fees. Rather than relying on credit or debit cards, consumers are more likely to rely on the BNPL services spread across interest-free installments. Apart from legal uncertainties, the article emphasizes the Future of FinTech Lending, which would be deeply influenced by the stringent regulations placed for the BNPL. While the regulations might affect the smaller BNPL startups, they will lead to better consumer protection, enhanced financial stability, and long-term innovation in the digital lending space.

The BNPL operates in a very gray area in India since it is not classified either under loan or credit under the existing laws. The primary attempt to regulate these challenges was made by the Reserve Bank of India (RBI)-by introducing the Reserve Bank of India (RBI) Digital Lending Guidelines (2022-23) to enforce stringent Know Your Customer (KYC) norms, and mandating partnerships with Non-Banking Financial Companies (NBFCs), no automatic credit line extensions, no prepaid credit instruments for BNPL loans. The existence of the Consumer Protection Act, of 2019 [1], protects consumers from fraud, misrepresentation, and unfair practices. Banking Regulation Act, 1949 [2], where the BNPL providers must function only if they are licensed by the Reserve Bank of India (RBI).

This article further concludes by recommending equitable regulatory frameworks to provide the best innovations for consumers without any potential risks hidden in the BNPL.

Keywords: FinTech, Buy Now Pay Later (BNPL), Reserve Bank of India (RBI), Finance, Credit Risks, Legal Challenges, Consumer Protection, Consumer Finance, Regulation.

Introduction

The model of Buy Now, Pay Later often referred to as BNPL, firstly it charges zero interest and is convenient for the consumer to finance their immediate purchase without any hassle, especially for the big ticket items that cannot be afforded right in the moment and on the other hand, its usage on daily basis attracting multiple due payments have led to concerns regarding the regulatory frameworks and increased debts of the consumer. Concerns have been raised about the popularity and usage of BNPL among youngsters who cannot afford a credit card.

FinTech companies have been at the forefront of this revolution of the BNPL model with AI-driven credit assessment and digital lending platforms. Players like-LazyPay, Simpl, and ZestMoney dominate this arena offering consumers small ticket loans for everyday purchases, while, other players like-Amazon Pay Later, Flipkart Pay Later, and Paytm Postpaid have integrated BNPL into their platforms, and allow their consumers to shop and defer payments effortlessly [3]. The success of BNPL is through the penetration factors of affordability and convenience of the consumers. While the usage of credit cards demands good credit scores, high minimum income requirements, and high interest rates-the BNPL has instant approvals, minimal documentation, zero interest when paid on time, and flexible repayment plans and these factors make it more appealing to the young consumers and first-time borrowers [3]. According to the reports, the BNPL model in India is expected to grow by 13.4% on an annual basis to reach USD 21.95 Billion in 2025 [5] and USD 35.07 Billion by 2030.

Despite its robust growth and adoption, BNPL exists in the legal gray area escaping regulatory scrutiny leading to

***Corresponding Author:** Dr. Malini N

potential fraud and risks to the consumers. Many BNPL providers operate outside the stringent banking regulations, leading to increased debts, and misleading marketing practices, particularly among the young and low-income class groups. Of foremost importance, the legal status of BNPL should be determined to establish a regulatory framework balancing innovation with responsible and safe lending. As the regulations tighten, it poses an inflection point to the FinTech industry either to adapt and comply or risk losing market dominance.

This article delves into the legal uncertainties, consumer risks, and the future of FinTech lending in the wake of BNPL's rise and aims to explore:

- What are the legal challenges faced by consumers due to the ambiguity of the legal status of BNPL?
- The consumer risks linked with BNPL-debt accumulation, and potential risks of data privacy.
- Whether the BNPL will survive as an independent product or evolve under stringent banking regulations?

But the central question remains whether the BNPL model is truly a *lifesaver* for young consumers or a *disguised debt trap* with long term financial risks?

Evolution and Rise of BNPL

The model of Buy Now, Pay Later (BNPL) arose as a response to the challenges and gaps in traditional credit systems, and difficulties in access to the credit card or formal loans. According to the reports, there is only a 5.5% penetration of credit cards [6] in the Indian population, making the BNPL a feasible alternative. The rise of online shopping, UPI transactions, and mobile wallets demands flexible digital credit solutions. No cost equated monthly installment (EMI) option and workable payment schedules attracted the young population of the country. The impact of COVID-19 on economic uncertainty led to the adoption of deferred payment options through the BNPL.

The BNPL started rapid global expansion when the big tech companies and banks began integrating it into their financial services. The first major player in the field, Klarna (Sweden, 2005), provided the interest-free payment at the checkout [7]. Later was Affirm (USA, 2012) and Afterpay (Australia, 2014), which made installment-based credit widely accessible. In India, the BNPL entered the financial landscape in 2016 because of the increasing demand for all ticket credits. LazyPay and ZestMoney entered the game targeting young professionals and students and later joined the Simpl for small everyday purchases like groceries, food, and bill payments. In the arena of E-commerce, Flipkart Pay Later, Amazon Pay Later, and Paytm Postpaid integrated the BNPL model in their checkout for deferred payments making it more accessible to the consumers during their purchase. However, the model of BNPL exploded and expanded during the COVID-19 pandemic due to the demand for cashless transactions and the rise of UPI and digital wallets.

Working of BNPL and its Market Impact

The BNPL is expanding by how the consumer shop and how the business operates, providing both parties a win-win situation.

A Consumer Perspective

- **Selecting at the Time of Checkout:** Consumers are offered the option of BNPL at online or retail stores alongside credit/debit card payments. The major e-commerce websites partner with the BNPL providers for smooth transactions and increased consumer reach.
- **Hassle-free Credit Approvals:** Since the beginning of the pandemic COVID-19, consumers have gradually declined the usage of traditional credit cards due to high interest rates, stringent scrutiny, and poor reward programs [8]. And, this was replaced by the BNPL with hassle-free instant credit approvals with minimal documentation, affordable payment options.
- **Flexible Payment Structures:** The consumers are offered different payment options such as:
  - i). Payment in full, where the entire due is set after 15 days or 30 days.
  - ii). Payment in installments, where the due is equally divided in installments of 3, 6, or 12 months.

- **Repayment and Fines**

Consumers are strictly time-bound for the payment of dues to avoid penalties and for the maintenance of good BNPL credit scores. Late payments attract high charges.

A BNPL Provider Perspective

- **Partnerships:** The major key in the game is the partnerships of the BNPL providers with the massive e-commerce websites, physical outlets, and other service providers. It is a win-win situation for both the merchants and BNPL providers since BNPL allows consumers to purchase expensive products without any finance, leading to better sales.
- **Credit Scores:** Prior to the approval of BNPL, the providers assess the creditworthiness of consumers, their spending, and repayment history. The credit scores are usually tracked by AI and other data analytics.
- **Generation of Revenue:** When the consumers default on the due payments, they instantly attract the penalties which contribute immensely to the generation of revenue
- **Debts and Defaults Management:** For the recovery of default payments various steps are taken by the BNPL providers such as flexible payment schedules for struggling consumers, debt accumulation agencies for long due standing consumers, regular reminders via email, sms and calls.

Consumer Risks

Alongside the financial innovations come inherent risks, and the BNPL model is no exception. Due to the absence of regulatory frameworks, the consumers are at higher risk to fall for the debt traps and other challenges.

i). Accumulation of Debt: The consumers are at high risk of purchasing expensive products they are not capable of affording because of the credits by the BNPL services, and this leads to accumulation of debts. Usage of BNPL on a daily basis for the small ticket purchases leads to the due of many payments [9]. According to reports, the interest free payments make the larger purchases seem much more affordable than they really are, increasing the risk of debt and default payments [10].

ii). Credit Checks: According to the Office of Comptroller of the Currency (OCC), the rapid growth of BNPL loans may pose risks related to consumer credit reporting, since these loans would not be fully captured in borrower credit history [11]. The BNPL providers do not conduct credit checks making it easier for consumers with poor or limited credit histories to access credit by BNPL.

iii). **Misleading Advertisements and Hidden Fees:** Once the dues are defaulted it attracts high penalties and hidden charges. The BNPL providers typically advertise interest-free installments, if the payments are not paid within the time limit it results in substantial fees. These penalties may accumulate and burden the consumers.

iv). **Consumer Protections:** The lack of regulatory oversights results in limited consumer protection. The absence of stringent regulations leaves consumers vulnerable to high risks and challenges. Unlike the benefits and protections with credit cards, BNPL users don't have strong protections and other resolution options.

v). **Data Privacy:** The BNPL providers hold a significant amount of data about the consumers:

- **Personally Identifiable Information (PII):** Full name, date of birth, residential address, details of aadhar, PAN.
- **Financial and Payment Data:** Bank account details, credit or debit card information, unified payment interface (UPI) details.
- **Transactions and Purchase History:** Items purchased, frequency of payments, merchants, and stores used.
- **Device and Location Data:** IP address, device information, geolocation data.
- **Biometric and Authentication Data:** Facial recognition, fingerprints.
- **Behavioral Data:** Browsing behavior on BNPL websites, shopping preference, and spending habits.

vi). Overspending and Impulse Purchases

The model of BNPL enables the consumers to buy more than needed due to instant credit approvals even though the user lacks finance. Hence, this leads to unnecessary spending and accumulation of debts. It further leads to debt traps and financial stress.

vii). Impact on Vulnerable Consumers

When the population with low income opts for the BNPL, it leads to increased financial hardships than expected. Certain groups of young people do not read the entire terms and conditions of the BNPL providers making them vulnerable to potential risks and financial challenges.

Addressing the Legal Uncertainties

The quick proliferation of BNPL has led to outpacing of regulatory frameworks and ambiguities resulting in significant legal uncertainties [12]. In India, most of the financial services are regulated by the Reserve Bank of India (RBI) under the legislation of the *Reserve Bank of India Act, 1934,* which establishes the RBI's authority over monetary policy and financial services. The functioning of banking companies is governed by the Banking Regulation Act, of 1949. *The Consumer Protection Act, of 2019,* governs consumer rights and addresses their grievances related to purchases and services.

Ambiguities at Place

i). Non-Banking Financial Companies (NBFCs)

In India, the NBFCs are regulated by the Reserve Bank of India under the Reserve Bank of India Act, 1934. Non-Banking Financial Companies are financial institutions that provide banking-related services without holding a banking license. They engage in financial activities such as providing loans and credit facilities, engaging in hire-purchase and leasing, investing in stocks, bonds, and other securities, microfinance and asset financing, and wealth management services [13]. It plays a crucial role in financial inclusion, especially for individuals and businesses that may not have access to traditional banking services. BNPL providers offer short-term credit to their consumers, making them part of the massive lending ecosystem. Most of the BNPL companies operate outside traditional financial regulations, leading to the challenges of transparency, consumer protection, and financial stability [14].

BNPL providers, if not registered as NBFCs, may face operational restrictions or severe legal consequences under the RBI Digital Lending Guidelines (2022-23). Registering under the NBFC regulates the activities affecting consumers such as hidden charges, predatory lending practices, and unfair debt recovery methods. Unregistered BNPL providers hold uncertain legal standing since they are classified as FinTech startups. Registering as an NBFC provides the company legitimacy and boosts the trust of its consumers and potential investors. After the grant of the NBFC license, the providers can continue operating without legal speed breakers and comply with financial regulations [15].

ii). PaymentSystem Operators (PSOs)

In India, Payment System Operators (PSOs) are regulated by the Reserve Bank of India under the ***Payment Settlement Systems Act, 2007 (PSSA)***. The RBI authorises and oversees PSOs to ensure they comply with security and anti money laundering regulations [16]. PSOs are an entity that manages and operates a payment system enabling the transfer of funds between individuals, businesses and financial institutions. They facilitate electronic payments and ensure smoother transactions.

The PSOs are categorized into different categories

a) **Card Networks:** To manage debit/credit payments (eg. Visa, Mastercard)

b) **UPI-Based PSOs:** To facilitate real-time mobile payments (eg. Google Pay, Phone Pe)

c) **Wallet-based PSOs:** To operate prepaid wallets (eg. Paytm, Amazon Pay)

d) **Payment Gateways:** To enable online transactions (eg. Razorpay, PayU)

BNPL services depend on digital payments and seamless fund transfers. The regulatory issues and restrictions on PSOs are affecting the BNPL business model. RBI prohibited non-bank prepaid payment instrument (PPI) issuers from loading PPIs with credit lines [17]. Most BNPL providers use the PPIs as a medium to extend the line of credit to allow consumers to spend via digital wallets. Due to the restrictions in place, the companies are forced to modify their operation services. If PSOs impose transaction limits, additional fees, or any other regulatory constraints, it could hugely impact the BNPL adoption. For example, if MasterCard restricts BNPL-related transactions, then BNPL providers may face challenges to onboard merchants or facilitate payments smoothly.

Potential collaboration between PSOs and BNPL providers offer seamless embedded credit solutions. For example, ZestMoney collaborates with Razorpay and Visa integrates BNPl directly to its merchant payment gateways.

RBI Digital Lending Guidelines (2022-23)

The RBI has posed guidelines to regulate digital lending including the BNPL services which focus on transparency, consumer protection and data privacy challenges. But, the absence of a dedicated regulatory framework specifically for BNPL continues to pose uncertainties.

To regulate the rapid expansion of the massive digital lending ecosystem, which includes Buy Now, and Pay Later services, the RBI introduced these guidelines, which apply to all digital lending activities facilitated by regulated entities (RSs) such as banks and non-banking financial companies (NBFCs), either directly or through lending service providers (LSPs) and digital lending apps (DLAs) [18]. Explicit borrower consent is mandatory for data collection, usage, and sharing access to borrowers' mobile resources, such as contacts and location, is restricted. The regulated facilities (REs) must establish a dedicated grievances redressal officer to address borrower complaints, within a stipulated resolution timeframe. Dedicated channels for complaint resolution ensure user issues are addressed promptly, enhancing trust in digital lending platforms [19].

The digital guidelines by RBI are a significant step towards regulating the digital lending landscape, including BNPL services. The BNPL providers must navigate operational and compliance challenges to adapt to the developing regulatory environment.

Consumer Protection Act, 2019

India witnessed a vast development in the financial sectors, leading to quick adaptations of modern consumer transactions which by default led to complexities. To address these complexities and challenges the Consumer Protection Act of 2019 evolved to safeguard consumer interests in the evolving digital landscape.

The Act of 2019 broadens the scope and definition of 'consumers' to include individuals engaging in online transactions through e-commerce. And provide stronger protection to the consumers irrespective of their domain of online or offline transactions. The Act made significant developments in the establishment of the Central Consumer Protection Authority (CCPA) to protect and enforce the rights of consumers. The authority was empowered to conduct investigations and to resolve the complaints [20]. A comprehensive definition of unfair trade practices, including misleading advertisements, false representation, and not issuing bills or receipts for goods and services rendered.

The BNPL services, by providing the option of deferred payments, fall in the category of 'services' as defined in the Act. Consumers availing of BNPL options are entitled to the protections afforded by the Act, including the right to seek redressal against unfair trade practices or deficiency in services [21].

The Consumer Protection Act, 2019, madantes BNPL service providers to disclose complete and accurate information regarding the services. They must inform consumers about all the terms and conditions, including payments, penalties if the due are defaulted, interest rates, late payment options and any other charges associated with the services. Failure to comply with the disclosure requirements will constitute an unfair trade practice under the Act.

The providers of BNPL must ensure that the marketing materials accurately represent the intention, terms and conditions of the company rather than providing false information or misleading the consumers with their advertisements. The consumers must be provided with clear, transparent information regarding the services. The CCPA is empowered to take stringent actions against entities indulging in such practices and gaining unlawful profits from potential consumers.

Regulatory Measures and its Challenges in India

Aiming at consumer protection and monitoring of financial stability, the RBI implemented some regulatory measures.

i). **Loading Prepaid Payment Instruments (PPIs) with Credit Lines:** In June 2022, the RBI strictly prohibited non-back prepaid payment instrument issuers from loading PPIs with credit lines. This targeted the BNPL providers who would extend their credit through prepaid wallets or cards, this practice lacked clear regulatory guidelines.

ii). **Mandating NBFC Registrations for BNPL Providers:** To promote higher transparency and accountability, the RBI mandated the BNPL providers to register under the NBFCs. This will gain the consumer's reach and trust to invest [22]. This measure aimed to bring BNPL services under the purview of existing financial regulatory frameworks.

iii). **Reports to Credit Bureaus:** Aimed to integrate BNPL activities into consumers' credit histories and enabling better evaluation of creditworthiness, the RBI required BNPL transactions to be reported to credit bureaus. This widely prevented the accumulation of undisclosed debts. This regulatory measure led to tightening of credit issuance, and limiting access to credit for consumers who relied on short term tickets.

Survival of BNPL

The viability of BNPL under the stringent regulatory framework depends on various factors. BNPL providers adapting to the regulations by enhancing their transparency and consumer protection are more likely to maintain consumer trust. The BNPL companies must invest in systems that investigate consumer creditworthiness effectively [23]. The rising default rates, particularly among the younger population, put forward challenges that require BNPL providers to tighten underwriting criteria and balance loan origination with credit loss limitation. BNPL providers capable of implementing such measures can sustain their business models. Integrating financial literacy resources or personalized financial management tools can enhance consumer engagement and loyalty.

Recommendation

i). The government should establish clear regulatory frameworks that classify BNPL services as credit products.

ii). The BNPL providers must mandatorily obtain a financial service license. This approach will safeguard consumer interests.

iii). Transparent disclosure of terms and conditions must be provided to consumers which would help them make informed financial decisions.

iv). Regulators and financial institutions should collaborate to enhance financial literacy among consumers. Education initiatives that inform the consumers about responsible borrowing, debt management.

v). Implementation of affordability checks by the BNPL providers, to assess consumers' ability to repay before extending the credit line. It protects consumers from financial burdens.

vi). Reasonable financial crest limits should be set based on individual financial capacity.

vii). Credit bureaus should monitor consumers' credit exposure, including BNPL obligations, to provide a holistic view of their financial commitments.
viii). Implementation of robust cybersecurity protocols to consumer data. This will ensure compliance with data protection regulations builds consumer trust and mitigates the risk of data breaches.
ix). The providers can engage with regulatory sandboxes to test innovative products under regulatory supervision, ensuring compliance and fostering innovation
x). Regular analysis of consumer behavior and market trends will greatly help the BNPL providers to stay in the market for the long run [24].

Conclusion

The Indian financial system has witnessed a paradigm shift with the advent of FinTech innovations. The future of BNPL and FinTech lending depends on the ability of regulatory frameworks to strike a balance between innovation and consumer protection. If efficiently regulated and responsibility managed, BNPL shall continue to serve as a financial life saver for many consumers while avoiding the ambiguities and pitfalls of unregulated lending models. The path forward demands for proactive governance ensuring that BNPL remains as a tool of lifesaver rather than exploitation.

References

1. Government of India. *Consumer Protection Act, 2019*. Ministry of Consumer Affairs, Food & Public Distributionm, 2019. Retrieved from https://ncdrc.nic.in/bare_acts/CPA2019.pdf
2. Government of India. *Banking Regulation Act, 1949*. Ministry of Finance. Retrieved from https://rbi.org.in
3. Arun T, Markose SM, Murinde V, Kostov P, Khan A, Goel V, Sethi R & Mcgarrell R. *Overview of Buy Now, Pay Later (BNPL) services: India-UK comparison*. SSRN, 2024.
4. Soni S. *Regulating buy now, pay later: Consumer financial protection in the era of fintech*. Columbia Law *Review*. 2023; 123(7):2035–2076.
5. Research and Markets. *India buy now pay later market size & forecast to 2030,* 2025.
6. Kapron Z. *Why credit card adoption is rising in India*. Forbes, 2023.
7. Mattioli, D. (2023, March 15). *Klarna replaces Affirm as a buy-now-pay-later provider at Walmart. The Wall Street Journal.*
8. Stripe. (n.d.). *What is buy now, pay later? BNPL platforms for businesses*.
9. Ang D & Maesen S. *Research: How "Buy Now, Pay Later" is changing consumer spending*. Harvard Business Review, 2024.
10. Udavant S. *Buy now, pay later (BNPL): What it is, how it works, pros and cons*. Investopedia, 2025.
11. Office of the Comptroller of the Currency. (2023, August 10). *OCC bulletin 2023-37: Risk management guidance for buy-now-pay-later products*.
12. Anand A, Kamath A & Tavawalla H. *Buy now, pay later: A case for increased regulation*. Global Business Law Review, 2022.
13. The Corporate Law Forum. *BNPL in India: A convenient solution with a dark side?,* 2023.
14. Sivaraman A. *Regulatory frameworks and consumer impacts: A comparative study of India's BNPL market. Dharmashastra National Law University Student Law Journal*, 2025.
15. LiveLaw News Network. *Need for regulatory oversight in India's buy-now-pay-later market*. LiveLaw, 2023.
16. Hafeez A. *Exploring the pitfalls of BNPL in India*. Kuvera, 2024.
17. Kaustubh A. *Explained: Why RBI's new rules are bad news for 'buy now, pay later' customers, prepaid wallets and more*. The Times of India, 2022.
18. Reserve Bank of India. *FAQs on digital lending guidelines,* 2023.
19. Anand A, Kamath A & Tavawalla H. *Digital lending in India: Analysis and implications*. Nishith Desai Associates, 2023.
20. National Consumer Disputes Redressal Commission. (2019). *Consumer Protection Act, 2019*.
21. Jago Grahak Jago. *Buy now pay later products lack consumer protection safeguards; can impose high monetary costs: Report,* 2024.
22. Drishti IAS. *India to become a fintech powerhouse,* 2025.
23. McKinsey & Company. *Fintechs: A new paradigm of growth,* 2023.
24. Wang Y & Li X. The influence of the buy-now-pay-later payment mode on consumer behavior. *Journal of Retailing*. 2025; 101(2):123–137.