

The Behavioral Economics of ‘Buy Now, Pay Later’ (BNPL) Apps and Financial Risk Among Young Adults: A Literature Review

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ABSTRACT

Buy Now, Pay Later (BNPL) services have rapidly gained popularity among young adults by offering installment-based payment options that appear interest-free and low-risk. While these services increase access to consumer goods, growing research suggests they may also heighten financial vulnerability, particularly for younger users with limited budgeting experience. Using a behavioral economics framework, this paper examines how present bias, anchoring, delayed friction, and loss aversion influence young adults' adoption and use of BNPL services. Drawing on existing academic research, industry reports, and financial behavior studies, the paper analyzes how these behavioral tendencies contribute to overspending, debt-stacking, missed payments, and financial stress. The paper also discusses individual-level strategies and provider-level design considerations aimed at reducing financial harm. The findings suggest that while BNPL can offer short-term convenience, greater awareness, transparency, and behavioral safeguards are necessary to prevent long-term financial risk.

Keywords: Anchoring, Behavioral economics, Buy Now Pay Later, Financial risk, Young adults

1. Introduction

1.1 Buy Now, Pay Later (BNPL) Services

Buy Now, Pay Later (BNPL) services allow consumers to make purchases without paying the full amount upfront, instead dividing the cost into installments over a fixed period. Many BNPL plans are marketed as interest-free if payments are made on time; however, missed or late payments may result in fees and other financial consequences (Kessel, 2025).

1.2 Significance of BNPL

BNPL often feels more convenient than traditional credit cards because it allows users to split purchases into smaller payments without explicitly charging interest in many cases. This makes BNPL especially appealing to students and young adults who are managing tight budgets and seeking immediate consumption without the long-term commitment they associate with traditional credit products (Kessel, 2025; Lazarony, n.d.). However, the simplicity and technology-driven image of BNPL platforms can cause young users to underestimate the financial risks involved.

1.3 Financial Risks Associated with BNPL

BNPL can become a significant financial risk for young adults who are more likely to overspend or make purchases they cannot realistically afford. Although individual payments may seem small, holding multiple BNPL plans simultaneously can quickly accumulate into substantial financial obligations. Missed payments may lead to late fees and, in some cases, negative effects on credit outcomes (Kessel, 2025).

1.4 Behavioral Economics as a Lens

Behavioral economics applies psychological insights to understand how individuals make economic decisions in real-world settings. This framework is particularly useful for studying BNPL services because they are designed to reduce friction at the point of purchase and appeal to cognitive and emotional biases. BNPL taps into behavioral tendencies such as present bias, anchoring, delayed friction, and loss aversion, which may cause consumers to prioritize immediate benefits while overlooking long-term consequences.

This paper investigates how these behavioral biases shape young adults' use of BNPL services and contribute to financial risk. The guiding research question is: *How do present bias, anchoring, delayed friction, and loss aversion make BNPL appealing to young adults, and what strategies can reduce the associated risks?*

2. Research Methodology and Design

This paper adopts a qualitative, literature-based methodology grounded in behavioral economics. It synthesizes findings from existing academic research, industry reports, and reputable financial education sources to examine how BNPL services influence financial decision-making among young adults.

Rather than collecting primary data, the study relies on secondary sources to identify recurring behavioral patterns, financial risks, and adverse outcomes associated with BNPL adoption. The

analysis focuses on four behavioral concepts, present bias, anchoring, delayed friction, and loss aversion, and applies these frameworks to real-world BNPL usage patterns discussed in prior studies. This approach enables a conceptual evaluation of BNPL-related financial risks while highlighting implications for consumer awareness and platform design.

3. Behavioral Drivers of BNPL Adoption Among Young Adults

3.1 Present Bias

Present bias occurs when individuals prioritize immediate rewards over future costs, even when waiting would be more beneficial. In the context of BNPL, present bias leads consumers to focus on the immediate satisfaction of acquiring goods without paying the full price upfront, while underestimating the long-term cost of installment payments. This tendency can encourage overspending and debt accumulation, as short-term desires overshadow future financial obligations (Powell et al., 2023; Lazarony, n.d.).

Example: A consumer may purchase a new smartphone priced at \$1,154 using a BNPL plan that divides the cost into smaller monthly payments. Even if the consumer already owns a functional phone, the immediate satisfaction of upgrading outweighs concerns about future payments.

3.2 Anchoring

Anchoring refers to the tendency to rely heavily on the first piece of information presented when making decisions. In BNPL contexts, consumers often anchor on the small installment amount displayed at checkout rather than the total purchase price. This framing makes products appear more affordable and increases the likelihood of impulse buying (Srivastava, Kumar, & Ankita, 2024).

Example: A product costing ₹7,924 may be advertised as “₹338 per month,” leading consumers to focus on the installment amount rather than the full financial commitment and potential penalties for missed payments (Kessel, 2025).

3.3 Delayed Friction

Delayed friction occurs when the purchasing process is designed to be quick and effortless while financial consequences are postponed. BNPL minimizes the immediate “pain of paying” by allowing users to complete purchases with minimal effort and no immediate deduction of funds. This delay reduces deliberation at the point of purchase and increases impulse buying (Powell et al., 2023).

3.4 Loss Aversion

Loss aversion describes individuals' tendency to fear losses more strongly than they value equivalent gains. BNPL marketing frequently employs scarcity messages such as limited-time offers or low-stock alerts. Because BNPL removes the need for immediate full payment, consumers may rush to purchase items to avoid missing out, even when the purchase was not planned (Srivastava, Kumar, & Ankita, 2024).

4. Financial Risks and Adverse Outcomes of BNPL Usage

Although BNPL services are marketed as easy and low-risk, existing research highlights several financial risks associated with their use, particularly for young adults. These risks include debt-stacking, overspending, missed payments, cyber fraud exposure, and negative impacts on financial well-being. Young adults are especially vulnerable due to limited budgeting experience, a higher tendency toward impulse buying, and reduced engagement with financial terms and conditions (Powell et al., 2023).

4.1 Debt-Stacking and Overspending

One of the most significant risks associated with BNPL usage is debt-stacking, which occurs when users hold multiple BNPL plans simultaneously. Because each installment appears small, consumers may believe they can manage repayments without difficulty. However, when several BNPL plans overlap, the total monthly repayment amount can become substantial and difficult to manage.

Survey evidence reported by Kessel (2025), referencing a LendingTree survey, indicates that nearly three out of five BNPL users have held multiple BNPL plans at the same time. The same survey notes that BNPL is increasingly used for everyday purchases such as groceries, rather than occasional discretionary spending. This trend is particularly concerning for young adults, as it suggests reliance on BNPL for routine expenses rather than planned consumption.

Behavioral biases such as present bias and loss aversion further contribute to overspending by encouraging consumers to prioritize immediate gratification and fear of missing out over long-term financial planning. Over time, this pattern can lead to persistent borrowing cycles that are difficult to exit.

4.2 Consumer Default Risk

Another major risk associated with BNPL usage is consumer default. According to Singh and D'Souza (2025), BNPL users may default due to job loss, unemployment, rising inflation, or unexpected expenses. Because BNPL plans are often entered into with minimal upfront

assessment of future repayment capacity, young adults may overestimate their ability to meet future obligations.

Defaults may result in late fees, account restrictions, or other penalties depending on the provider. For young adults who are still developing financial stability, even minor defaults can contribute to long-term financial stress and reduced financial well-being.

4.3 Cyber and Fraud Risks

BNPL platforms also face significant cyber and fraud risks due to their fast application processes and limited friction during onboarding. Singh and D'Souza (2025) identify identity theft and account takeovers as major forms of fraud affecting BNPL services. Fraudsters may exploit weak passwords or compromised accounts through automated methods.

Young adults may be particularly vulnerable to these risks if they reuse passwords across platforms or fail to monitor their accounts regularly. Cyber fraud can result in unauthorized purchases, financial losses, and additional stress for users managing existing repayment obligations.

4.4 Credit and Financial Well-Being Impacts

BNPL usage can also affect broader financial well-being. Research by Powell et al. (2023) identifies a relationship between responsible financial behavior and financial well-being, noting that younger consumers are more likely to engage in compulsive or impulse buying when using BNPL. The study further indicates that users under the age of 25 are less likely to analyze BNPL terms and conditions or plan purchases in advance.

Missed or late payments may negatively affect financial outcomes, particularly as some BNPL providers increasingly report repayment behavior. Early negative financial experiences can shape long-term financial habits and contribute to ongoing financial stress.

5. Mitigation Strategies and Policy Implications

5.1 Individual-Level Strategies for Young Adults

Young adults can reduce BNPL-related risks by adopting structured budgeting habits. One commonly recommended approach is the 50/30/20 rule, which allocates income toward necessities, discretionary spending, and savings or debt repayment (InCharge Debt Solutions, 2025). Building an emergency fund can provide a buffer against unexpected expenses and reduce reliance on BNPL during financial stress (Lazarony, n.d.).

Setting reminders for BNPL due dates may help prevent missed payments. Practicing a pre-purchase pause—evaluating whether a purchase is necessary and considering the total cost rather than installment size—can counter behavioral biases such as present bias and anchoring.

5.2 Provider-Level Design and Regulatory Considerations

BNPL providers can reduce consumer harm by offering consolidated dashboards that clearly display active plans, due dates, and total outstanding balances. Allowing users to set self-imposed spending limits and sending alerts when plans overlap may help prevent debt-stacking. Greater transparency around fees, repayment terms, and reporting practices is also essential to support informed decision-making.

6. Conclusion

BNPL services appeal to young adults by making purchases feel easy, affordable, and low-risk. However, behavioral biases such as present bias, anchoring, delayed friction, and loss aversion can cause young users to underestimate the true cost of their purchases. While BNPL offers short-term convenience, it may increase the risk of overspending, debt-stacking, missed payments, and financial stress if not used carefully.

Greater awareness of behavioral influences, combined with practical budgeting strategies and transparent BNPL design, can help reduce these risks. When used responsibly and with appropriate safeguards, BNPL can function as a flexible financial tool rather than a source of long-term financial harm.

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