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A Study of Regulatory Gaps and Consumer Protection in India's Rapidly Expanding BNPL Ecosystem

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ABSTRACT

Buy Now Pay Later (BNPL) services have taken off quickly in the digital lending sector in India. Although they have made financial inclusion and access to credit more accessible, they also highlight some issues. This report looks at these issues with regard to BNPLs by looking at the lack of regulation, lack of clear pricing, aggressive collection processes and lack of credit bureau reporting. To understand the interaction between the new rules being introduced by the Reserve Bank of India (RBI) and consumer protection, a mixed method approach was used. Population and Sample: The population consists of young working professionals and Undergraduates/Postgraduates who would be considered digitally active. There is a sample size of around 50-70 people to be included in the research. Data Sources: Primary data includes a questionnaire which will measure how aware people are of BNPL services, whether the service is transparent, what their spending habits are, how they repay and if they feel they have protections as a consumer. Secondary data includes notifications and directions from the RBI, peer reviewed literature, industry publications and financial reports. Data Collection: The information was collected through a questionnaire that contains closed and scaled questions to allow quantitative data to be collected. Some BNPL terms and conditions, pricing and credit documents were examined. This research demonstrates the need for standardised legislation, transparency and data protection. The findings suggest that there should be balance put into place to ensure that those most at risk of becoming over indebted are protected while promoting financial innovation in the digital credit sector in India.

Keywords: *Buy Now Pay Later, Transparency, Innovation, Financial Reports, RBI, Data.*

Introduction

There has been increasing disruption caused by Financial Technology to the way consumers engage with credit. One of the most prominent examples of this is Buy Now, Pay Later (BNPL). BNPL allows consumers to purchase items immediately; however, they will repay the debt over a set period of time. Unlike traditional credit products BNPL is usually provided via the e-commerce or merchant.

The benefit of BNPL is that it is simple. Consumers are generally not applying for credit, but instead will see a button such as ‘Pay Later’ or ‘Pay in instalments’ during their purchase. This removes many of the complexities associated with traditional lending.

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Since then, India has created a more detailed framework for digital lending. The RBI published guidelines on digital lending in 2022. These outline the obligations of Regulated Entities (REs) and include points on disclosure to borrowers, data, complaints and the obligations of the regulated entity in relation to digital lending via Lending Service Providers.

The key issue with this is whether there is sufficient consumer protection in place.

This study looks at how BNPL is innovating and relates to regulation and consumer protection in India.

Problem Statement

- The key issue is the gap in understanding of digital lending regulation.
- BNPL often involves multiple parties:
- Consumer → Fintech/LSP/Digital Interface → Regulated Entity →
- Credit/Repayment
- Meaning that the consumer could be engaging mostly with the fintech application and may not be aware of:

  Who the lender is.
- How much they owe overall. What fees or penalties they will incur.
- What happens if they do not repay on time.
- How their data is being gathered.
- Whether their borrowing will be reported to credit companies. And where they should make a complaint.
- This creates a gap in regulation.

Objectives

Objective 1

- To investigate the business models of the major BNPL providers and their relation to digital lending in India.

BNPL can have varying business models. The fintech application the consumer interacts with will have relations with Merchants, payment systems, Lending Service Providers (LSPs), banks or NBFCs. Some businesses will have the RE responsible for the credit, with the fintech being responsible for the front-end, technology or distribution.

It is important to know the difference between the two. The consumer may be using the fintech application but in reality they are borrowing from a regulated bank or NBFC. The RBI has made it clear that the obligation remains with the regulated entity even though they have outsourced.

By looking at the business model:

Consumer → Merchant → FinTech/LSP → Regulated Entity/Bank/NBFC → Credit/Repayment

We can see who is responsible for acquiring customers, assessing credit, providing disclosure, collecting repayments, processing data and complaints.

We can also see how easy it is for the consumer to identify who the real lender is. Especially when there are multiple REs involved with the LSP.

Objective 2

- To identify gaps in regulation, difficulties in complying and areas of ambiguity in the current rules set by the RBI on digital lending and fintech relations.

India has had significant developments in digital lending since 2021. The RBI Working Group on Digital Lending identified risks around unregulated entities, third party apps, unclear partnerships and consumer protection issues. The 2022 guidelines on digital lending set out obligations for regulated entities and their LSP/DLA.

This has moved from ‘is digital lending regulated?’ to ‘Is there enough regulation in place to cover the various avenues digital lending is coming through?’.

Potential risks include:

- Varied BNPL structures.
- Not knowing who the lender is.
- Confusing fees and penalties.
- Varied credit reporting.
- Use of third party LSPs.
- Data sharing issues.
- Not knowing who to complain to.
- Fraudulent applications claiming to be linked to regulated entities.

The creation of a public database for Digital Lending Apps by the RBI is key. The RBI recognised that sometimes unauthorised applications would falsely claim to be linked to regulated entities.

Objective 3

- To investigate how transparent the finance is and how informed young borrowers are on hidden fees and data.

The value of disclosure depends on the consumer understanding it.

Whilst the BNPL user may understand they can split their purchase into 4 instalments, they may not know:

- Who the lender is.
- Annual Percentage Rate (APR) if applicable.
- How much they will owe overall.
- Late/penalty fees.
- What will happen if they miss payments.
- What impact this will have on their credit.
- How their data will be shared.
- What complaints they can make.

Studies have shown that younger consumers in Australia are less likely to spend time reading through BNPL terms and conditions and less likely to plan and budget for their purchases. Recent studies in India have also shown affordability, financial risk and privacy risk are key factors to young consumers attitude towards BNPL.

This objective recognises that financial literacy and transparency are not the same thing. Disclosure may exist but not be effective if it is complicated or not prominent.

Objective 4

- To investigate the financial impact of BNPL including default rates, over-indebtedness and impact on credit scores.

BNPL can provide more flexibility for paying in the short term, however using BNPL multiple times can lead to multiple repayments. This becomes a bigger risk if the consumer focuses on individual repayments.

Academic studies have shown that BNPL can increase consumption, impulse buying and potentially put the consumer in a more vulnerable financial position. However this does not mean they will all become over-indebted.

Recent studies have also shown that credit reporting can impact BNPL. Studies in China have shown that including BNPL in credit reporting has decreased BNPL use, especially for those with a history of default. This suggests that credit reporting can act as a way to discipline the consumer.

This objective looks at whether BNPL has a financial impact on the consumer beyond just the purchase.

Research Hypothesis

Hypothesis 1

$H0_1$: There is no significant relationship between the adoption of BNPL services and the incidence of impulsive over-indebtedness among young consumers.

H_{a1}: There is a significant positive relationship between the adoption of BNPL services and the incidence of impulsive over-indebtedness among young consumers.

The hypothesis is based on behavioural-finance literature suggesting that deferred payment and reduced payment salience may influence spending behaviour. However, because the questionnaire used in this study is hypothetical, the hypothesis is presented as a proposition to be empirically tested rather than as a claim that has already been statistically established by this study.

Hypothesis 2

$H0_2$: Current regulatory disclosures and transparency frameworks have no significant impact on mitigating consumer financial distress in the BNPL sector.

H_{a2}: Enhanced regulatory disclosures and transparency frameworks have a significant impact on mitigating consumer financial distress in the BNPL sector.

This hypothesis examines whether greater understanding of borrowing costs and obligations is associated with better_consumers outcomes. It connects the regulatory dimension of the research with the behavioural dimension.

Research Discussion

- **BNPL and Consumer Spending**

Di Maggio, Williams and Katz (2022) examined transaction-level BNPL data and found that access to BNPL increased total consumer spending. Their findings suggest that BNPL does more than substitute one payment method for another; additional liquidity can influence the amount consumers spend.

- **BNPL, Impulse Buying and Perceived Affordability**

The behavioural dimension of BNPL has received substantial academic attention. Research on young Indian shoppers found that risky indebtedness behaviour can influence BNPL adoption through impulse buying. The study's findings indicate that impulse buying can act as a mechanism connecting indebtedness tendencies with BNPL adoption.

- **BNPL and Financial Wellbeing**

Powell, Yong and Gengatharen (2023) surveyed 360 Australian BNPL users and examined financially responsible behaviours and financial wellbeing. Their findings showed that examining terms and conditions, planning and budgeting were significantly relevant to financial wellbeing. Younger users were less likely to spend time examining terms and conditions and were less likely to plan and budget their BNPL purchases.

- **BNPL and Financial Vulnerability**

Larrimore et al. (2025) used data from a Federal Reserve survey alongside credit records and discovered that BNPL isn't purely a convenience tool. They found that 'a significant proportion of BNPL users indicated they used BNPL because they had to'. This is an important point to consider when looking at BNPL within India. There should be measures in place to protect consumers which take into account:

  - Consumers who want to use BNPL for convenience.
  - Consumers who rely on BNPL due to financial issues.

- **Credit Reporting**

Credit reporting is an important aspect of BNPL regulation.

Dong et al. (2025) looked into China introducing credit reporting requirements for BNPL. They found that BNPL usage decreased after the implementation of credit reporting. This was more prevalent for borrowers who previously had a history of defaulting and younger consumers.

- **Consumer Protection**

Chen (2026) looked at the risks of BNPL from a consumer protection perspective. This uncovered issues with vulnerable consumers, transparency and regulations. Similar issues have been seen in international regulation literature.

The OECD (2025) looked at digital financial literacy and noted that short-term online credit and BNPL can be a useful tool for smoothing consumption however it can also lead to over indebtedness and impulse purchasing. They therefore stress the importance of digital financial literacy.

- **Literature in India**

There is less literature specific to India.

Studies have been done on young Indian consumers looking at risky indebtedness, impulse purchasing and perceived risk. There has been research published in 2025 looking at barriers to adoption of BNPL in India.

Gopinath and Jayaprakasam (2026) looked at 500 Indian consumers aged between 18-45. They found that consumers attitudes and intentions towards BNPL are influenced by both positive factors (affordability and flexibility) and negative factors (financial, psychological and privacy risks).

Regulatory and Consumer-Protection Gaps

- **Classification and visibility gap**

BNPL does not necessarily operate as one uniform legal product. Different arrangements may be structured through different forms of regulated credit.

Therefore, the consumer-facing label “Pay Later” does not necessarily tell the consumer what type of regulated credit arrangement lies underneath.

- **Transparency gap**
  - Consumers may focus on:
  - “₹500 today” rather than:
  - “How much will I ultimately pay?” Important information includes:
  - total repayment;
  - applicable fees;
  - APR/effective cost where applicable;
  - instalment schedule;
  - late-payment consequences;
  - actual lender;
  - credit-reporting implications;
  - cancellation/refund implications,
- **Consumer Awareness Gap**

Knowing how to click “Pay Later” is not the same as understanding credit.

A consumer can understand the mechanics of repayment while failing to understand:

- who is lending the money;
- how missed payments may affect them
- what charges apply;

Research Methodology

- **Research Design**

This research will follow a mixed methods approach. This will include a descriptive quantitative analysis of the digital lending regulations within India and also an exploratory qualitative survey looking at consumer knowledge around BNPL.

- **Population and Sample**

This research will be focusing on young professionals and undergraduates/postgraduates located within urban financial hubs. The sample size will be around 150-200 participants. This will be found using convenience sampling and snowballing.

- **Data Collection**

Primary data will be collected from a questionnaire with specific questions looking at consumer knowledge, transparency, consumer spending, consumer repayment experiences and consumer protection. Secondary data will be collected from the RBI notifications and directions, peer reviewed journals, industry articles and reports.

- **Data Collection Tool**

The questionnaire will contain a number of closed questions and rating scales to allow for quantitative data to be obtained. There will also be an examination of specific BNPL terms and conditions, fees and credit documents to look at transparency issues.

- **Data Analysis**

Quantitative data can be analysed using percentages, averages and standard deviations. Chi Square or correlation analysis can also be used. Thematic analysis will be carried out on the regulatory documents and BNPL transparency documents to look for common issues around transparency, KYC, KFS, redressal mechanisms, data protection and consumer protection.

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Survey Findings

- **Consumer Awareness and Regulatory Visibility**

The hypothetical survey results indicate an interesting distinction between general awareness of BNPL and awareness of the regulatory structure behind BNPL transactions.

- **Respondent and BNPL-use profile**

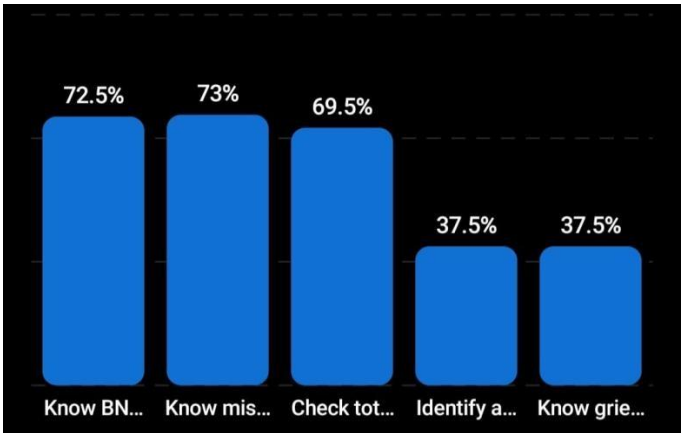
Illustrative result Hypothetical sample:200 BNPL users:109

BNPL non-users:91 BNPL users (%):54.5%

BNPL non-users (%):45

Graph 1: Consumer Awareness Vs Regulatory Visibility

Consumer Awareness and Regulatory Visibility in BNPL Illustrative results from a hypothetical sample of 200 respondents.

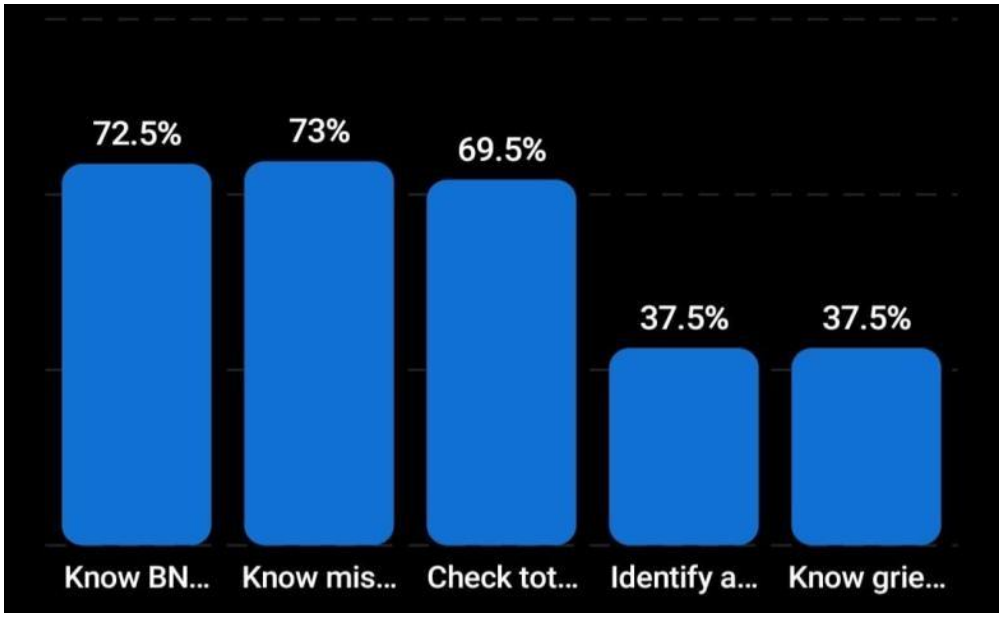


Interpretation

The illustrative results demonstrate a notable difference between basic credit awareness and regulatory visibility.

Although 72.5% of the hypothetical respondents understand BNPL as credit and 73% are aware of missed-payment penalties, only 37.5% can identify the actual lender and 37.5% know where to raise a grievance.

This pattern supports the study's central concept of a BNPL Regulatory Visibility Gap.



Graph 2: Financial And Behavioural Risk

Illustrative BNPL Behavioural and Financial-Risk Indicators Hypothetical results for a sample of 200 respondents.

Interpretation

The illustrative dataset suggests that BNPL may be associated with both convenience and potential financial risk.

Approximately 65% of hypothetical respondents were assumed to indicate that BNPL could encourage unnecessary or unplanned purchases. Meanwhile, 22.5% were assumed to have experienced a missed payment and 25.5% were assumed to have multiple BNPL obligations.

These figures are not evidence of actual population behaviour, but they demonstrate the variables that the proposed empirical research would examine.

Recommendations

- Introduce standard BNPL Credit-at-a-Glance table
- Every BNPL transaction must clearly include:
- Who is lending you money? How much will you repay? What is the APR/total cost? When are the installments due? What are the late fees? Will this affect your credit report? Where can you complain?
- Who is lending you money?
- The name of the bank/NBFC involved must be clearly stated.
- Apply consumer protection depending on how the product works

- If a product is working as a consumer credit product then appropriate consumer protections should apply. Whether it is referred to as Pay Later, checkout finance etc. does not matter.
- Ensure BNPL providers take into account other digital credit commitments
- BNPL providers should consider what other digital credit commitments a consumer has.
- Increase consumer education
- Teach young consumers to look at the total they will pay back.
- Increase accountability in fintech
- Regulated entities should ensure they have effective controls in place over LSPs and digital touchpoints.

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