

Impact of EMI Schemes and Buy-Now-Pay-Later (BNPL) Options on Consumer Buying Behaviour

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ABSTRACT

The contemporary consumer landscape is being reshaped by the proliferation of flexible payment solutions, notably Equated Monthly Installment (EMI) schemes and Buy-Now-Pay-Later (BNPL) options. These financial tools have altered traditional purchasing behaviors by enabling consumers to access goods and services immediately while deferring payments over time. This thesis investigates the influence of EMI and BNPL offerings on consumer buying behavior in India, exploring their adoption, impact on purchasing decisions, and the demographic factors that drive their usage. Primary data was collected through surveys targeting diverse consumer segments, and the findings reveal that these payment options not only enhance affordability and convenience but also encourage higher spending and reshape financial planning.

Keywords: EMI, BNPL, consumer behaviour

I. INTRODUCTION

In the modern marketplace, the act of purchasing has evolved far beyond the simple exchange of money for goods. With growing advancements in financial technology and digital payments, consumers today are offered an array of flexible financing options that redefine affordability and influence spending patterns. Two of the most prominent and rapidly adopted methods in this evolving financial landscape are Equated Monthly Instalment (EMI) schemes and Buy-Now-Pay-Later (BNPL) services.

These payment mechanisms have introduced a new dimension to consumer behaviour. Instead of being limited by current income or liquidity, consumers now have the option to access products and services immediately and spread their payments over a period of time. The psychological comfort and financial flexibility provided by EMI and BNPL options have made them popular among all age groups, particularly the younger, tech-savvy generation who seek instant gratification and convenience. This shift has not only impacted personal budgeting and purchasing decisions but has also created

ripple effects across industries such as retail, electronics, fashion, and even healthcare.

Traditionally, consumers would plan their purchases based on their savings or income, especially when it came to high-value items. Credit cards offered some relief, but they came with strict eligibility criteria and high interest rates. EMI options, often offered through banks or directly by retailers, allowed consumers to pay for their purchases in equal monthly amounts over a fixed period—making it easier to own expensive products like smartphones, appliances, and vehicles. On the other hand, BNPL, a relatively newer concept, allows users to make a purchase today and delay payment for a few weeks or months, often interest-free if paid within the grace period.

The global rise of e-commerce platforms and digital wallets has accelerated the adoption of these models. Companies like Amazon, Flipkart, ZestMoney, LazyPay, and Paytm have collaborated with financial institutions and fintech firms to integrate EMI and BNPL directly into their checkout processes. These services, often promoted with "no cost EMI" or "zero interest" tags,

appeal strongly to consumers who may not have a credit history or prefer short-term commitments over traditional loans.

II. LITERATURE REVIEW

1. Soman, D. (2001). "Effects of Payment Mechanism on Spending Behavior" – Journal of Consumer Research
Soman's research shows that deferred payment mechanisms like credit cards—and by extension EMI/BNPL—reduce the "pain of paying" and increase willingness to spend. In the Indian context, BNPL schemes evoke similar psychological triggers, encouraging impulse buying and increased cart values, especially among millennials.

2. PwC India (2022). "The BNPL Opportunity in India"
This industry report highlights that BNPL adoption in India surged due to fintech growth, e-commerce integration, and consumer credit demand. The report shows how BNPL leads to higher frequency of purchases in fashion, electronics, and lifestyle segments. Young, digitally native consumers increasingly use BNPL for convenience and cash flow management, altering traditional buying behaviors.

3. Kumar, A., & Gupta, V. (2021). "A Study on the Influence of EMI Financing on Consumer Purchase Intentions" – International Journal of Research in Marketing

This study finds that EMI options increase affordability perception and reduce purchase hesitation for high-ticket items like smartphones, appliances, and furniture. EMI schemes particularly influence middle-income groups, encouraging them to upgrade to premium products they might not otherwise afford upfront.

4. McKinsey & Company (2023). "Digital Lending and Consumer Credit Evolution in India"

This report notes that India's growing fintech ecosystem is redefining consumer credit through instant EMI and BNPL offerings. It highlights that trust, transparency, and zero-cost EMI offers are key factors influencing consumer uptake. BNPL usage is highest in Tier I and II cities, driving growth in discretionary spending categories.

5. RBI Working Paper (2022). "Credit Access and Consumer Spending in India's Digital Economy"

This paper explores how digital credit models—like BNPL—are reshaping consumer finance. It suggests that easy access to deferred payment plans influences not just the volume but also the timing and type of purchases.

However, it also cautions about over-leverage risk and advocates for better regulation of digital lending norms

III. RESEARCH METHODOLOGY

Research Design

A quantitative research design was adopted, using structured surveys to collect primary data from a diverse sample of consumers. This approach was chosen to ensure objectivity and to facilitate statistical analysis of the data. The research design incorporated elements of descriptive and exploratory research to capture both existing patterns and emerging trends in consumer behavior.

Data Collection Method

Surveys were distributed online and offline, targeting respondents from various age groups, income levels, and educational backgrounds. The questionnaire was designed to capture data on awareness, usage, perceptions, and demographic

details. A stratified random sampling method was used to ensure representation across different consumer segments.

The survey was conducted over a period of two months, with responses collected from urban and semi-urban areas. To ensure data quality, validation checks were incorporated into the survey design, and incomplete or inconsistent responses were excluded from the analysis.

Research Objectives

- To analyze the level of awareness and usage of EMI and BNPL options among consumers.
- To study the effect of EMI and BNPL availability on purchase decisions.
- To evaluate consumer perceptions regarding the affordability, convenience, and risk associated with these schemes.
- To examine demographic factors (age, income, education, etc.) influencing the adoption of these payment options.

Research Purpose

The primary purpose of this research is to explore how flexible payment solutions like Equated Monthly Installments (EMI) and Buy-Now-Pay-Later (BNPL) are shaping modern consumer buying behavior. With the growing popularity of digital payments and financial

technology platforms, these credit-based payment models have become easily accessible, especially to younger and tech-savvy individuals.

This research aims to understand not just how frequently these options are used, but the deeper behavioral and psychological shifts they trigger in consumers.

Through this study, we seek to uncover whether EMI and BNPL schemes are empowering consumers by making expensive products more affordable, or if they are leading to impulsive and unsustainable spending habits. By collecting and analyzing primary data from diverse consumer groups, the research intends to capture patterns in purchasing decisions, budget planning, and financial awareness.

The research also aims to evaluate how demographic factors—such as age, income, profession, and education—affect the adoption and impact of these payment tools. It further explores whether consumers fully understand the long-term financial responsibilities that come with deferred payment options.

IV. RESEARCH STRUCTURE

This research is structured into key steps, each contributing to a comprehensive understanding of the topic.

The first step introduces the study by explaining the growing relevance of EMI and Buy-Now-Pay-Later (BNPL) schemes in today's consumer economy. It outlines the problem statement, research objectives, and the scope of the study. The second step reviews existing literature related to consumer behavior, financial decision-making, and digital credit systems. This helps identify research gaps and provides a theoretical foundation for the study.

The third step focuses on the research methodology, detailing the design, sample selection, data collection tools (like surveys), and the rationale behind choosing these methods to ensure the study's reliability and accuracy. The fourth step presents the data analysis and interpretation, using charts and graphs to showcase consumer responses and behavior patterns associated with EMI and BNPL options.

In the fifth step, the findings are discussed in depth, linking the analyzed data with real-world consumer trends while highlighting key insights and behavioral shifts. The final step concludes the research by summarizing the main observations and offering practical recommendations for businesses, fintech companies, and policymakers. It also suggests directions

for future research based on the limitations and discoveries of this study.

Research background

Over the past decade, the financial landscape has witnessed a significant shift in how consumers approach spending, especially with the emergence of innovative payment solutions like Equated Monthly Installments (EMIs) and Buy Now Pay Later (BNPL) services. These options have changed the traditional view of purchasing, where full payment at the point of sale was once the norm. Today, consumers are more inclined to delay full payment in exchange for flexible, bite-sized installments that better align with their monthly budgets.

EMIs have existed in India for many years, mostly associated with long-term financing options offered by banks and credit card providers. However, their adoption saw a sharp rise with the expansion of e-commerce and retail finance. Now, EMIs are not limited to large purchases like vehicles or electronics—they are available for everything from smartphones to clothing. With minimal documentation and instant approvals, even those without a credit history can avail these services. BNPL, on the other hand, is rapidly gaining traction among millennials and Gen Z, who prefer digital-first, hassle-free payment experiences.

Industry Profile

The Indian retail and e-commerce sector has become a fertile ground for the growth of flexible payment options. With increasing internet penetration, smartphone usage, and digital literacy, more consumers are shopping online and seeking convenience in payment methods. Fintech startups and established banks are competing to offer innovative credit solutions, often integrating with major e-commerce platforms to provide seamless checkout experiences.

Evolution of EMI and BNPL in India

The evolution of EMI and BNPL in India can be traced to the changing aspirations of the middle class and the increasing demand for lifestyle products. Retailers and fintech companies have introduced a variety of schemes, including zero-cost EMIs, instant approvals, and personalized credit limits, to cater to different consumer segments. The COVID-19 pandemic further accelerated the adoption of digital credit as consumers sought to manage cash flows amid economic uncertainty.

Market Challenges

Despite rapid growth, the market faces challenges such as regulatory uncertainties, the risk of consumer over-indebtedness, and the need for robust credit assessment models. Fintech companies must balance innovation with responsible lending practices to ensure long-term sustainability.

Future Outlook and Opportunities

The future outlook for EMI and BNPL in India is promising, with continued growth expected as digital infrastructure improves and consumer awareness increases.

Opportunities exist in expanding to underserved segments, offering value-added services, and leveraging data analytics for personalized credit offerings.

Key Opportunities

- Expansion into tier 2 and tier 3 cities.
- Collaboration with merchants for exclusive offers.
- Integration with loyalty programs and financial planning tools.

Why Are These Options Growing?

- The growth of EMI and BNPL options is driven by several factors:
 - Rising consumer aspirations and demand for high-value products.
 - Increased digital adoption and availability of instant credit.
 - Preference for convenience and flexibility over traditional credit products.
 - Aggressive marketing and partnerships between fintechs, banks, and retailers.

How Do EMI and BNPL Affect Consumer Behavior?

- EMI and BNPL options have a profound impact on consumer behavior:
- They lower the psychological barrier to making large purchases.
- Encourage impulse buying and higher spending.
- Shift consumer focus from upfront affordability to monthly cash flow management.
- Influence brand and product choices based on availability of flexible payment schemes.

Process of EMI (Equated Monthly Instalment)

The EMI process typically involves:

- Selection of product and EMI option at checkout.
- Instant credit approval based on basic KYC and credit checks.
- Payment of a small down payment (if any) and division of the remaining amount into equal monthly installments.
- Automatic deduction of EMIs from the consumer's bank account or card.

Definition and Concept of Buy-Now-Pay-Later (BNPL)

BNPL is a short-term financing solution that allows consumers to purchase goods or services and pay for them at a later date, often without interest if paid within the stipulated period. It is typically offered by fintech companies in partnership with merchants and is popular for online purchases.

Evolution of EMI and BNPL in the Indian Market

The Indian market has seen rapid innovation in digital credit, with a range of products tailored to different consumer needs. The proliferation of smartphones, digital wallets, and UPI has made it easier for consumers to access credit and manage repayments seamlessly. Fintech startups are leveraging technology to assess creditworthiness using alternative data, making credit accessible to a wider audience.

V. DATA ANALYSIS AND INTERPRETATION

Data analysis revealed:

- High awareness and adoption of EMI and BNPL, especially among urban and younger consumers.
- A strong correlation between the availability of flexible payment options and increased spending.
- Consumers perceive these options as enhancing affordability and convenience but are often unaware of the long-term risks.
- Demographic analysis showed that millennials and Gen Z are the most active users, while older consumers remain cautious.

The analysis also identified key product categories where EMI and BNPL are most commonly used, with electronics, fashion, and home appliances leading the list. Interestingly, there is a growing trend of using these options for lower-value items, indicating a shift in consumer mindset regarding credit usage.

Consumer satisfaction with these payment options was generally high, with convenience and flexibility being the most appreciated features. However, concerns were

raised about hidden fees, the complexity of terms and conditions, and the potential for overspending.

VI. FINDINGS

Research Findings

- EMI and BNPL have become mainstream payment options in India, with a significant percentage of consumers having used them at least once.
- They have significantly influenced consumer spending, enabled higher-value purchases and fostered aspirational consumption.
- The risk of over-indebtedness exists, particularly among consumers with low financial literacy.
- There is a need for greater transparency and consumer education on terms, fees, and repayment obligations.
- The availability of these options has changed how consumers approach budgeting and financial planning, with a shift towards managing monthly outflows rather than saving for purchases.
- Retailers and e-commerce platforms that offer flexible payment options have a competitive advantage, especially when targeting younger consumers.
- The integration of EMI and BNPL with digital wallets and UPI has enhanced their appeal and ease of use.

VII. SUGGESTION & RECOMMENDATIONS

- Businesses should integrate flexible payment options to attract and retain customers but must ensure transparent communication of terms.
- Fintech companies should invest in consumer education to mitigate risks of overspending and debt accumulation.
- Policymakers should develop regulations to protect consumers from predatory practices and promote responsible lending.
- Consumers should be encouraged to understand the total cost of purchases, including any fees or interest, rather than focusing solely on the monthly payment amount.
- Financial literacy programs should include modules on digital credit and responsible borrowing.
- Retailers and fintech companies should collaborate to offer value-added services such as budgeting tools and financial planning resources.

- Credit reporting mechanisms should be strengthened to prevent multiple borrowing and ensure responsible lending.

VIII. CONCLUSION

EMI and BNPL schemes have fundamentally transformed consumer buying behavior in India, offering flexibility and access to goods and services. While they empower consumers by enhancing affordability, they also introduce risks related to financial discipline and long-term debt. A balanced approach involving innovation, education, and regulation is essential for sustainable growth in the digital credit ecosystem.

The research highlights the need for a collaborative effort among businesses, fintech companies, policymakers, and consumers to ensure that these payment options contribute positively to financial inclusion and economic growth without leading to unsustainable debt levels. As these options continue to evolve and expand, ongoing research and monitoring will be essential to understand their long-term impact on consumer financial health and market dynamics.

The future of retail finance in India is likely to see further innovation in flexible payment solutions, with greater personalization, integration with other financial services, and enhanced user experiences. Consumers, armed with better information and tools, will be better positioned to make informed choices that align with their financial goals and capabilities.

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