

ATTUALITÀ

# How Buy Now Pay Later (BNPL) quietly became a credit crisis

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Summary: 1. Buy Now Pay Later: Background Information; 2. Advantages and Disadvantages of BNPL installment payments; 3. Fast Credit, Hidden Risks: Structural Weaknesses in Buy Now Pay Later Schemes; 4. The BNPL Illusion: When Easy Credit Becomes Hard Debt; 5. Conclusion: Rethinking Risk and the Critical Need for Credit Protections in BNPL.

### 1. Buy Now Pay Later: Background Information

Buy Now, Pay Later (BNPL) services are increasingly shaping consumer purchasing behavior. Often referred to as “point-of-sale installment loans” or “pay-in-4” plans, <sup>1</sup> BNPL has emerged as a widely adopted payment method, enabling customers to finance purchases both online and in retail stores. <sup>2</sup> As economic pressures grow, nearly one-quarter of U.S. consumers are now using BNPL to pay for essentials such as groceries. <sup>3</sup> The Asia-Pacific BNPL market is expected to grow by 14.5% annually, reaching \$211.7 billion in 2025, <sup>4</sup> while the European market is projected to expand by 12.4%, hitting \$191.3 billion by the same year. <sup>5</sup>

<sup>1</sup> Retail Lending: Risk Management of ‘Buy Now, Pay Later’ Lending. OCC Bulletin 2023-37. December 6, 2023. <https://www.occ.gov/news-issuances/bulletins/2023/bulletin-2023-37.html>.

<sup>2</sup> The BNPL market is dominated by PayPal Pay in 4/Pay Later (15%), Affirm (11%), Afterpay (9%) and Klarna (9%). See L. Nowacki, Survey: About half of buy now, pay later users have experienced issues like overspending and missing payments. May 2025. Bankrate. <https://www.bankrate.com/loans/personal-loans/buy-now-pay-later-survey/>.

<sup>3</sup> See S. Rogelberg, A quarter of U.S. consumers are now financing groceries with buy-now, pay-later as economic pressures mount. Fortune, April 28, 2025. <https://fortune.com/article/buy-now-pay-later-groceries-economic-concerns-lending-tree-survey/>.

<sup>4</sup> See Asia Pacific Buy Now Pay Later Business Report 2025: BNPL Payments to Grow by 14.5% to Reach \$211.7 Billion this Year - Investment Opportunities Databook to 2030 - ResearchAndMarkets.com. <https://www.businesswire.com/news/home/20250324595130/en/Asia-Pacific-Buy-Now-Pay-Later-Business-Report-2025-BNPL-Payments-to-Grow-by-14.5-to-Reach-%24211.7-Billion-this-Year---Investment-Opportunities-Databook-to-2030---ResearchAndMarkets.com>.

<sup>5</sup> See Europe Buy Now Pay Later Business Report 2025: BNPL Market to Grow by 12.4% to Reach \$191.3 Billion this Year, Dominated by Klarna, Afterpay, and PayPal - Forecast to 2030 - ResearchAndMarkets.com. <https://www.businesswire.com/news/home/20250228642047/en/Europe-Buy-Now-Pay-Later-Business-Report-2025-BNPL-Market-to-Grow-by-12.4-to-Reach-%24191.3-Billion-this-Year-Dominated-by-Klarna-Afterpay-and-PayPal-Forecast-to-2030---ResearchAndMarkets.com>.



While BNPL is widely used to describe various types of installment lending products, it typically refers to short-term loans that allow consumers to pay for purchases in multiple, interest-free installments over a fixed period. BNPL was initially geared toward higher-value, non-essential purchases such as smartphones, designer handbags, home appliances, luxury clothing <sup>6</sup>, or tickets to music festivals. <sup>7</sup> Today, its scope has expanded to include everyday expenses, such as groceries <sup>8</sup> and takeout food.

Functionally, BNPL loans operate similarly to traditional installment loans, such as personal loans, mortgages, or auto financing. In a typical BNPL arrangement, the merchant receives the full purchase amount upfront from the loan provider—often a bank—while the consumer repays the balance in smaller, fixed installments over several weeks or months.

Repayments are usually deducted automatically from the borrower's debit or credit card, or directly from a linked bank account. If a borrower misses a payment, the lender may impose a late fee and temporarily suspend access to further BNPL services until the outstanding balance is settled.

Banks can deliver BNPL loans in multiple ways: by partnering directly with merchants, by working through third-party BNPL platforms that mediate between banks and retailers, or by offering BNPL products in-house, without involving external intermediaries.<sup>9</sup>

## 2. Advantages and Disadvantages of BNPL installment payments

When used responsibly and offered with adequate transparency, BNPL services can enhance consumer financial flexibility by providing a convenient alternative to traditional forms of credit. By allowing purchases to be split into manageable installments—often interest-free—BNPL can enable consumers

<sup>6</sup> <https://www.investopedia.com/buy-now-pay-later-5182291>.

<sup>7</sup> As live music prices continue to rise, fans are increasingly turning to payment plans as an interest-free option to afford their festival tickets. See D. Brooks, As Concert Ticket Prices Soar, More Than Half of Coachella GA Attendees Are Buying Tickets Through Payment Plans. *Billboard*, April 4, 2025. <https://www.billboard.com/pro/coachella-payment-plans-high-ticket-prices-music-festivals/>.

<sup>8</sup> G. Fonrouge, More Americans are financing groceries with buy now, pay later loans — and more are paying those bills late, survey says. April 26, 2025. <https://www.cnbc.com/2025/04/26/americans-groceries-buy-now-pay-later-loans.html>.

<sup>9</sup> Retail Lending: Risk Management of 'Buy Now, Pay Later' Lending. OCC Bulletin 2023-37, cit.

to access higher-quality goods that might otherwise be out of reach. <sup>10</sup>

BNPL loans offer clear advantages for retailers as well. The availability of this payment method has been shown to increase both average transaction values and overall sales volumes. <sup>11</sup> This aligns with finance research suggesting that deferred payments reduce the psychological perception of financial constraint, encouraging greater spending. <sup>12</sup> In concrete terms, offering BNPL leads to increased frequency of purchases and higher transaction values.

However, the rapid expansion of BNPL services has highlighted several underlying risk factors. <sup>13</sup> Most notably, the ease of access to credit may lead some consumers to enter into financial commitments without fully understanding the nature of the service or the risks involved. The European Banking Authority (EBA) has warned of a tangible risk that consumers may enter into financial obligations without a proper and thorough prior assessment of their creditworthiness. <sup>14</sup>

A second, related issue is that BNPL services may obscure the true extent of consumers' financial obligations, lowering awareness of contractual commitments and encouraging impulsive behavior. This

<sup>10</sup> These loans, often offered interest-free, differ from traditional credit card purchases, which typically accrue interest monthly unless the balance is paid in full. Moreover, recent Consumer Reports indicate that some BNPL providers have expanded their offerings to include longer-term loans—ranging from six to twelve months or more—with interest rates that can, in some cases, make these BNPL loans more costly than credit card financing. See, L.L. Gill, New Buy Now, Pay Later Loans Come With More Risks. <https://www.consumerreports.org/short-term-lending/new-buy-now-pay-later-loans-come-with-more-risks-a1161982784/>.

<sup>11</sup> E. Heaslip, The Pros and Cons of Buy Now, Pay Later for Small Businesses. <https://www.uschamber.com/co/start/strategy/buy-now-pay-later-pros-and-cons>.

<sup>12</sup> Maesen, S., & Ang, D. (2024). Buy Now, Pay Later: Impact of Installment Payments on Customer Purchases. *Journal of Marketing*, 89(3), 13–35. <https://doi.org/10.1177/00222429241282414> (Original work published 2025).

<sup>13</sup> The European Commission has taken steps to enhance consumer protections for BNPL users by explicitly including these services within the scope of Directive (EU) 2023/2225 (CCD II). For a detailed analysis of the key provisions addressed by Directive (EU) 2023/2225, see B. Losacco, *Le insidie del Buy Now Pay Later e la tutela dei consumatori vulnerabili*, July 11, 2024. <https://www.dirittobancario.it/art/le-insidie-del-buy-now-pay-later-e-la-tutela-deiconsumatori-vulnerabili>.

<sup>14</sup> EBA, Consumer Trends Report 2022/2023. EBA/REP/2023/12. April 24, 2023, at 44. [https://www.eba.europa.eu/sites/default/files/document\\_library/Publications/Reports/2023/1054879/Consumer%20Trends%20Report%202022-2023.pdf](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2023/1054879/Consumer%20Trends%20Report%202022-2023.pdf).

dynamic can expose latent vulnerabilities<sup>15</sup> and lead individuals to take on more debt than they can reasonably manage.

Moreover, the absence of standardized disclosure language increases the opacity of these arrangements. Such lack of clarity can mislead users about the financial implications of the service, potentially causing harm and raising regulatory concerns related to unfair, deceptive, or abusive commercial practices.<sup>16</sup>

Finally, while BNPL services may appear advantageous for consumers, they can strain retailers—particularly small or low-margin businesses. Providers typically charge retailers a transaction fee<sup>17</sup> ranging from 1.5% to 7% of the total purchase amount, compared to roughly 1% to 3% for traditional credit or debit card payments.<sup>18</sup> These higher fees, though seemingly modest, can significantly erode profit margins, especially in already fragile business models.

### 3. Fast Credit, Hidden Risks: Structural Weaknesses in Buy Now Pay Later Schemes

The highly automated infrastructure of BNPL services—featuring instantaneous credit approvals and significant reliance on third-party intermediaries—exposes lenders to elevated operational risk.<sup>19</sup> In fact, while this structural model has fueled BNPL's commercial success, it has also revealed significant vulnerabilities in credit assessment, governance, and enforcement systems.

The picture becomes even more complex when considering that many BNPL applicants have limited

or no credit history, making it difficult to apply traditional underwriting methodologies.<sup>20</sup> Conventional credit scoring systems are not designed to account for the short-term, small-dollar, and rapidly amortizing profile of BNPL obligations. As a result, the limited and often fragmented reporting of BNPL activity to credit bureaus can obscure a borrower's full liability exposure, undermining lenders' ability to accurately assess creditworthiness and heightening the risk of overextension.<sup>21</sup>

Additionally, little is known about the credit risk models adopted by BNPL providers. Preliminary evidence indicates that BNPL providers commonly offer financing on an unsecured basis, often without conducting robust creditworthiness assessments. Instead, their business models often depend on behavioral assumptions, such as timely repayment, and on secondary revenue streams like late fees, accrued interest, and other default-related charges.

This strategy, however, may prove fragile. As I have argued in previous work,<sup>22</sup> such standard post-default debt enforcement mechanisms provide limited relief: failure to meet repayment deadlines is frequently a symptom of deeper financial distress, not temporary liquidity issues. Consequently, it is unlikely that a borrower who defaults on an initial installment will later be able to cover an even larger sum inflated by fees and penalties. For the BNPL provider, this typically results in recovering only a small fraction of the amount owed.<sup>23</sup>

In sum, the very features that make BNPL appealing—its speed, ease, and accessibility—are also those that render it particularly vulnerable to credit, operational, and systemic risks. The tension between seamless lending and sustainable credit practices is one that regulators and market participants will need to address with increasing urgency.

<sup>15</sup> Cfr. S. Digregorio, F.M. Gabbriacci, *L'innovazione tecnologica ed il consumatore in ambito bancario, in Il consumatore vulnerabile tra innovazione e diritti fondamentali* – Consumerism 2022, Consumers Forum, December 2022, at 11. <https://www.consumersforum.it/iniziative/2022/5112-il-consumatore-vulnerabile-tra-innovazione-e-diritti-fondamentali.html>. For a more comprehensive discussion on the vulnerabilities of BNPL users, see B. Losacco, *Le insidie del Buy Now Pay Later e la tutela dei consumatori vulnerabili*, cit.

<sup>16</sup> Retail Lending: Risk Management of 'Buy Now, Pay Later' Lending. OCC Bulletin 2023-37. December 6, 2023, cit.

<sup>17</sup> See E. Heaslip, The Pros and Cons of Buy Now, Pay Later for Small Businesses. <https://www.uschamber.com/co/start/strategy/buy-now-pay-later-pros-and-cons>.

<sup>18</sup> See R. Murphy, What to Know Before Your Business Adds Buy Now, Pay Later, cit.

<sup>19</sup> Retail Lending: Risk Management of 'Buy Now, Pay Later' Lending. OCC Bulletin 2023-37, cit.

<sup>20</sup> Retail Lending: Risk Management of 'Buy Now, Pay Later' Lending. OCC Bulletin 2023-37, cit.

<sup>21</sup> Retail Lending: Risk Management of 'Buy Now, Pay Later' Lending. OCC Bulletin 2023-37, cit.

<sup>22</sup> F. Amici, Credit Protection Insurance: Too Good to Be True? Actual Challenges and Future Applications, in *Dialoghi di Diritto dell'Economia*, March 2025, at 234. <https://www.dirittobancario.it/wp-content/uploads/2025/03/2025-Amici-Credit-Protection-Insurance-2.pdf>.

<sup>23</sup> F. Amici, Credit Protection Insurance: Too Good to Be True? Actual Challenges and Future Applications, cit., at 234.

#### 4. The BNPL Illusion: When Easy Credit Becomes Hard Debt

The risks associated with BNPL are no longer theoretical—they are unfolding in real time. A recent *Bankrate* survey revealed that nearly half of all BNPL users have encountered financial difficulties, including missed payments and overspending.<sup>24</sup> According to a survey by *LendingTree*, 41% of BNPL users reported making at least one late payment in the past year—an increase from 34% the year before.<sup>25</sup>

Klarna, one of the sector’s most prominent players, offers a striking example of the financial fragility underlying the BNPL model: as recently reported, the Swedish company’s net losses doubled in the first quarter even as its user base and revenue grew. Klarna’s consumer credit losses swelled 17% in the first quarter from the same period a year earlier, hitting \$136 million.<sup>26</sup>

These patterns suggest that repayment issues are not episodic, but systemic.

Yet, despite the mounting evidence of consumer distress, the regulatory response has remained muted. Political institutions have not fully reckoned with the short-term risks these credit dynamics may pose. Particularly indicative is the recent shift in regulatory approach in the United States. The current administration has scaled back earlier efforts to bring BNPL services under tighter scrutiny. The Consumer Financial Protection Bureau (CFPB), for instance, has retreated from enforcing a key Biden-era rule that sought to classify BNPL providers as credit card issuers under the Truth in Lending Act—a move that would have significantly increased transparency and accountability in the sector.<sup>27</sup>

<sup>24</sup> L. Nowacki, Survey: About half of buy now, pay later users have experienced issues like overspending and missing payments. May 2025. Bankrate. <https://www.bankrate.com/loans/personal-loans/buy-now-pay-later-survey/>.

<sup>25</sup> J.J. McCorvey, Buy now, pay never? Some Klarna users struggle to repay loans as U.S. consumer debt rises. May 20, 2025. <https://www.nbcnews.com/business/personal-finance/buy-now-pay-never-klarna-users-struggle-repay-loans-us-consumer-debt-s-rcna207940>.

<sup>26</sup> J.J. McCorvey, Buy now, pay never? Some Klarna users struggle to repay loans as U.S. consumer debt rises, cit.

<sup>27</sup> M. Sigalos, Trump’s CFPB drops enforcement of buy now, pay later rule in latest rollback of consumer protections. May 6, 2025. CNBC. <https://www.cnbc.com/2025/05/06/trumps-cfpb-drops-enforcement-of-bnpl-as-consumer-protections-decline.html>.

#### 5. Conclusion: Rethinking Risk and the Critical Need for Credit Protections in BNPL

In a previous article<sup>28</sup> we noted that the systemic risks associated with BNPL services stem not only from limited credit histories and insufficient assessments of applicants’ ability to repay the debt, but also of the absence of effective risk mitigation tools. As this article has reaffirmed, it is now essential that BNPL providers explore the use of concrete safeguards to manage default risk.

One potential solution lies in the adoption of credit protection insurance (CPI).

When appropriately structured, CPI can significantly reduce lenders’ exposure. Upon the occurrence of a predefined triggering event, responsibility for repayment may shift to the insurer, thus insulating the lender from full credit loss.<sup>29</sup> However, to ensure effectiveness, BNPL providers must carefully draft these agreements, clearly defining the scope of covered events that materially impair the buyer’s capacity to meet repayment obligations.

The careful implementation of such credit protection mechanisms represents a crucial step toward enhancing the sustainability and resilience of BNPL lending in an increasingly complex landscape of consumer lending.

<sup>28</sup> F. Amici, Credit Protection Insurance: Too Good to Be True? Actual Challenges and Future Applications, cit., at 234.

<sup>29</sup> It is worth noting that some insurance companies have recently introduced products tailored to BNPL services, aimed at protecting sellers against buyer nonpayment.



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