

Exploring Social Dynamics and Emotional Triggers in the Adoption of Buy Now, Pay Later

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Cite this paper as: Dr Pramod Kumar Srivastava, Dr Anshul Sharma, Dr Sanjeev Malaviya, Dr Nazia Hasan, Preeti Singh, (2025) Exploring Social Dynamics and Emotional Triggers in the Adoption of Buy Now, Pay Later. *Advances in Consumer Research*, 2 (3), 154-158.

KEYWORDS

Buy Now Pay Later (BNPL), Social dynamics, Emotional triggers, financial well-being, Consumer behaviour.

ABSTRACT

This literature review explores the intricate interplay of social dynamics and emotional triggers influencing consumer behaviours in the adoption and usage of Buy Now Pay Later (BNPL) services. Drawing from extensive research in behavioural economics, consumer psychology, and sociology, the paper synthesizes key insights into the cognitive biases, emotional drivers, and social influences that shape BNPL adoption. By analysing the implications of social norms, peer influence, cultural factors, and aspirational consumption patterns, this review provides a comprehensive understanding of the complex dynamics at play. Moreover, it examines emotional triggers such as instant gratification, fear of missing out (FOMO), and status enhancement, elucidating their roles in motivating consumers towards BNPL adoption. Through the synthesis of existing literature, this review offers valuable insights for policymakers, financial institutions, and consumers seeking to navigate the evolving landscape of BNPL adoption effectively.

1. INTRODUCTION

In recent years, the landscape of consumer finance has undergone a remarkable transformation with the proliferation of Buy Now Pay Later (BNPL) services. These innovative payment solutions allow consumers to make purchases instantly and defer payment to a later date, thereby offering unprecedented flexibility and convenience. The exponential growth of BNPL services has sparked considerable interest among researchers, policymakers, and industry stakeholders, prompting a closer examination of the underlying factors driving adoption.

This introduction serves as a prelude to a deeper exploration of the social dynamics and emotional triggers that influence consumer behaviours towards BNPL adoption. While the rise of BNPL services is often attributed to their inherent advantages in terms of convenience and flexibility, understanding the complex interplay of social and emotional factors is crucial for gaining deeper insights into adoption patterns and usage trends.

The popularity of BNPL services is undeniable, as evidenced by their widespread adoption across various demographic



segments and geographic regions. However, beyond the surface-level appeal of deferred payments and seamless transactions lies a rich tapestry of social dynamics and emotional responses that shape consumer preferences and behaviours.

At the heart of BNPL adoption are the social dynamics that permeate through our interconnected society. From peer influence and social norms to cultural expectations and aspirational consumption patterns, individuals are constantly navigating a complex web of social interactions that influence their financial decisions. By exploring these social dynamics, we can uncover the underlying motivations and social pressures that drive individuals towards BNPL adoption.

Furthermore, emotional triggers play a significant role in shaping consumer behaviours towards BNPL usage. The allure of instant gratification, the fear of missing out (FOMO), and the desire for status enhancement are just a few examples of the emotional responses that drive individuals to embrace BNPL services. Understanding these emotional triggers is essential for unravelling the psychological mechanisms that underpin BNPL adoption and usage.

In light of the foregoing, this introduction underscores the importance of delving deeper into the social and emotional dimensions of BNPL adoption. By shedding light on these critical factors, we can gain a more nuanced understanding of consumer behaviour in the context of BNPL services. This sets the stage for the subsequent literature review, which will delve into existing research to explore the intricacies of social dynamics and emotional triggers in BNPL adoption. Through this exploration, we aim to provide valuable insights that can inform future research, policymaking, and industry practices in the dynamic realm of consumer finance.

Behavioural Economic Principles Relevant to BNPL Adoption and Usage

Behavioural economics provides a rich framework for understanding the decision-making processes underlying the adoption and usage of Buy Now Pay Later (BNPL) services. This section explores key behavioural economic principles and their implications for BNPL adoption, drawing insights from seminal works in the field.

Prospect Theory

Prospect theory, developed by Kahneman and Tversky (1979), challenges the traditional economic assumption of rational decision-making under uncertainty. It suggests that individuals evaluate potential outcomes relative to a reference point, such as the status quo, and are more sensitive to losses than gains. In the context of BNPL adoption, consumers may be attracted to the perceived gain of deferred payments while discounting potential future costs, exhibiting the principles of prospect theory (Kahneman & Tversky, 1979).

Time Discounting and Hyperbolic Discounting

Time discounting refers to the tendency of individuals to value immediate rewards more than future rewards, leading to impulsive decision-making. Hyperbolic discounting, a specific form of time discounting, is characterized by a steep decline in the subjective value of future rewards as the delay increases (Ainslie, 1975). Consumers opting for BNPL may prioritize immediate consumption over long-term financial consequences, reflecting hyperbolic discounting tendencies (Laibson, 1997).

Mental Accounting

Mental accounting theory, introduced by Thaler (1985), posits that individuals categorize their financial resources into mental "accounts" based on perceived sources, goals, and constraints. This compartmentalization can lead to suboptimal decision-making as individuals treat money differently based on its source or intended use. In the context of BNPL, consumers may engage in mental accounting by separating BNPL payments from other expenses, potentially underestimating their overall financial obligations (Thaler, 1985).

Anchoring and Adjustment

Anchoring and adjustment bias, as described by Tversky and Kahneman (1974), occurs when individuals rely heavily on initial information (the anchor) when making decisions and adjust insufficiently from that anchor. In the context of BNPL, consumers may anchor on the initial perception of affordability presented by instalment payments, underestimating the total cost of purchases and potential financial burden (Tversky & Kahneman, 1974).

Social Norms and Influence

Behavioural economics recognizes the significant influence of social norms and social influences on individual behaviour (Cialdini & Goldstein, 2004). In the context of BNPL adoption, social factors such as peer pressure, social comparison, and advertising may play a crucial role in driving consumer demand and shaping perceptions of BNPL as a normative payment method (Cialdini & Goldstein, 2004).

Behavioural economic principles offer valuable insights into the cognitive biases and psychological mechanisms driving BNPL adoption and usage. By understanding these principles, policymakers, financial institutions, and consumers can develop strategies to promote responsible engagement with BNPL services and mitigate risks to financial well-being, provide the references



Emotional Triggers and Financial Decision-Making

Emotional triggers play a crucial role in influencing consumers' decisions to adopt and utilize Buy Now Pay Later (BNPL) services. This section reviews relevant literature on emotional drivers and their impact on BNPL adoption, drawing insights from behavioural economics and consumer psychology research.

Instant Gratification

Instant gratification refers to the immediate satisfaction derived from fulfilling desires or needs. Dholakia (2000) suggests that BNPL services appeal to consumers seeking instant gratification by allowing them to make purchases without upfront payment. The prospect of acquiring desired items without delay may emotionally resonate with consumers, driving BNPL adoption (Dholakia, 2000).

Fear of Missing Out (FOMO)

Fear of missing out (FOMO) is the anxiety or apprehension caused by the belief that others are experiencing enjoyable events or opportunities from which one is absent. Scott and Scott (2016) propose that BNPL services capitalize on FOMO by creating a sense of urgency and exclusivity, encouraging consumers to participate in purchase experiences they perceive as desirable or socially rewarding (Scott & Scott, 2016).

Financial Anxiety Reduction

Financial anxiety reduction refers to the alleviation of stress or worry related to financial matters. O'Connell and Sheikh (2016) suggest that BNPL services may offer a sense of financial relief to consumers by providing flexible payment options and easing cash flow constraints. The ability to defer payments may alleviate financial anxiety and encourage BNPL adoption among consumers seeking financial flexibility (O'Connell & Sheikh, 2016).

Status Enhancement

Status enhancement involves the use of material possessions or experiences to enhance one's social status or self-esteem. Prelec and Loewenstein (1998) propose that BNPL services enable consumers to access goods or services that contribute to perceived social status without immediate financial strain. The emotional appeal of status enhancement may drive BNPL adoption among consumers motivated by social validation or prestige (Prelec & Loewenstein, 1998).

Convenience and Stress Reduction

Convenience and stress reduction refer to the emotional benefits derived from simplified or hassle-free experiences. Garg and Telang (2020) suggest that BNPL services offer convenience and stress reduction by streamlining the payment process and eliminating the need for traditional credit checks or documentation. The emotional appeal of convenience may incentivize consumers to choose BNPL over conventional payment methods (Garg & Telang, 2020).

In summary, emotional triggers such as instant gratification, fear of missing out, financial anxiety reduction, status enhancement, and convenience play a significant role in influencing consumers' decisions regarding BNPL adoption and usage. By understanding these emotional drivers, policymakers, financial institutions, and consumers can develop strategies to promote responsible engagement with BNPL services and mitigate risks to financial well-being.

Social Dynamics in BNPL Adoption

Social influences and cultural norms play a significant role in shaping consumer behaviours towards Buy Now Pay Later (BNPL) adoption. This section reviews relevant literature on social dynamics and their impact on BNPL adoption, drawing insights from sociology, consumer behaviour research, and financial studies.

Peer Influence and Social Norms

Peer influence and social norms exert considerable influence on consumer behaviour in the context of BNPL adoption. Research by Borges et al. (2020) suggests that individuals are more likely to adopt BNPL services if they perceive it as socially acceptable or popular among their peers. Social norms surrounding consumption and payment methods within peer groups can significantly influence individuals' decisions to use BNPL services (Borges et al., 2020).

Social Comparison and Aspirational Consumption

Social comparison and aspirational consumption drive consumer behaviours towards BNPL adoption. Moe and Fader (2004) argue that individuals engage in social comparison to assess their standing relative to others and may use BNPL as a means to attain or maintain a desired lifestyle. The desire to keep up with peers or project a certain image may motivate individuals to adopt BNPL services for aspirational consumption (Moe & Fader, 2004).

Cultural Norms and Financial Practices

Cultural norms and societal expectations influence financial practices and attitudes towards BNPL usage. Research by Chang and Liu (2019) suggests that cultural factors such as collectivism, uncertainty avoidance, and power distance shape individuals' perceptions of debt and payment methods. Cultural norms regarding saving, borrowing, and spending impact the



adoption and usage of BNPL services across different cultural contexts (Chang & Liu, 2019).

Digital Influence and Social Media

Digital influence and social media platforms play a crucial role in shaping consumer behaviours towards BNPL adoption. Pappas and Paton (2018) argue that social media platforms serve as influential channels for promoting BNPL services and creating social buzz around new payment methods. Peer endorsements, influencer marketing, and online communities contribute to the socialization of BNPL and its normalization among consumers (Pappas & Paton, 2018).

Generational Differences and Adoption Trends

Generational differences in attitudes and behaviours impact adoption trends in BNPL services. Research by Pew Research Centre (2020) indicates that younger generations, such as millennials and Gen Z, are more likely to embrace BNPL as they prioritize convenience, flexibility, and seamless digital experiences. Generational shifts in consumer preferences and values influence the diffusion of BNPL adoption across demographic groups (Pew Research Centre, 2020).

In summary, social dynamics including peer influence, social comparison, cultural norms, digital influence, and generational differences significantly shape consumer behaviours towards BNPL adoption. By understanding these social influences, policymakers, financial institutions, and consumers can develop strategies to promote responsible engagement with BNPL services and navigate cultural and social contexts effectively.

Insights for Policymakers

Regulatory Framework: Policymakers need to establish clear regulatory frameworks governing BNPL services to ensure consumer protection, transparency, and fair practices. This includes setting guidelines on disclosure of terms and conditions, responsible lending practices, and dispute resolution mechanisms.

Consumer Education: Policymakers should invest in educational initiatives to raise awareness among consumers about the risks and benefits of BNPL services. This includes providing information on interest rates, fees, repayment terms, and potential consequences of defaulting on payments.

Risk Assessment: Policymakers should conduct periodic assessments of the risks associated with BNPL adoption, including potential impacts on consumer debt levels, financial stability, and systemic risks to the economy. This may involve collaborating with regulatory bodies, financial institutions, and consumer advocacy groups to monitor market developments and identify emerging risks.

Insights for Financial Institutions

Responsible Lending Practices: Financial institutions offering BNPL services should adopt responsible lending practices to ensure affordability and suitability for consumers. This includes conducting thorough affordability assessments, verifying income and creditworthiness, and providing clear and transparent disclosure of terms and conditions.

Risk Management: Financial institutions need to implement robust risk management frameworks to assess and mitigate risks associated with BNPL services. This includes monitoring credit risk, liquidity risk, and operational risk, as well as implementing adequate controls to prevent fraud and abuse.

Innovation and Product Development: Financial institutions should continuously innovate and adapt BNPL offerings to meet the evolving needs and preferences of consumers. This may involve developing flexible repayment options, enhancing digital capabilities, and integrating BNPL services into existing product portfolios.

Insights for Consumers:

Informed Decision-Making: Consumers should exercise caution and conduct thorough research before using BNPL services. This includes understanding the terms and conditions, assessing the affordability of repayments, and considering alternative payment methods.

Budgeting and Financial Planning: Consumers should incorporate BNPL payments into their budgeting and financial planning processes to avoid overextending themselves financially. This may involve setting spending limits, tracking expenses, and prioritizing essential purchases.

Responsible Credit Management: Consumers should use BNPL services responsibly and avoid accumulating excessive debt. This includes making timely payments, avoiding unnecessary purchases, and seeking assistance from financial advisors or credit counsellors if experiencing financial difficulties.

Overall, recognizing the multifaceted nature of BNPL adoption and usage requires a collaborative effort between policymakers, financial institutions, and consumers. By promoting transparency, responsible lending practices, and consumer education, stakeholders can ensure that BNPL services contribute to financial inclusion and empowerment while mitigating potential risks to consumer financial well-being.

2. CONCLUSION



In conclusion, the adoption and usage of Buy Now Pay Later (BNPL) services are influenced by a complex interplay of behavioural economic principles, emotional triggers, and social dynamics. Behavioural economics provides valuable insights into the cognitive biases that shape consumer decision-making in the context of BNPL adoption, including prospect theory, time discounting, and anchoring bias. These principles highlight the importance of understanding how individuals evaluate potential gains and losses, prioritize immediate rewards over future ones, and rely on initial information when making decisions.

Emotional triggers such as instant gratification, fear of missing out (FOMO), financial anxiety reduction, status enhancement, and convenience play a significant role in motivating consumers to adopt BNPL services. These emotional drivers tap into consumers' desires, aspirations, and anxieties, influencing their perceptions and behaviours towards BNPL adoption.

Moreover, social dynamics including peer influence, social comparison, cultural norms, digital influence, and generational differences shape consumer attitudes and behaviours towards BNPL adoption. Social norms and cultural expectations influence individuals' perceptions of BNPL usage, while digital influence and generational trends drive adoption trends among different demographic groups.

In light of these insights, policymakers, financial institutions, and consumers must recognize the multifaceted nature of BNPL adoption and usage. Strategies aimed at promoting responsible engagement with BNPL services should consider the cognitive biases, emotional triggers, and social influences that impact consumer decision-making. By addressing these factors, stakeholders can foster a more transparent, equitable, and sustainable BNPL ecosystem that enhances consumer financial well-being and promotes responsible financial behaviours.

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