

Impact mechanism of 0 interest installment repayment on teenage consumption decision-making

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Abstract. This essay examines the impact of Buy Now Pay Later (BNPL) schemes on the purchasing behavior of Generation Zs referring to people born between 1995 and 2009, especially teenagers. While analyzing strategies used by platforms like AfterPay to attract consumers, and explaining why the Buy Now Pay Later (BNPL) service have gained popularity among young consumers, leading to significant changes in their consumption behavior and financial decision-making. The analysis examines how society and evolving economic trends affects teenagers' spending habits, encouraging impulsive purchases and potentially leading to debt accumulation. Furthermore, the essay examines the psychological and social factors that drives Buy Now Pay Later (BNPL) adoption among young people, as well as the implications for their financial literacy and responsibility. Ultimately, this study aims to provide insights into the broader effects of Buy Now Pay Later (BNPL) on the financial well-being of adolescents and propose recommendations for promoting responsible consumption in this demographic field.

Keywords: BNPL, Generation Z, Consumption behavior, Loan.

1. Introduction

With the rise of technology, money that was originally all cash made of paper is being replaced by advanced payment methods like Apple Pay or PayPal through virtual accounts, that is when zero-interest installment is introduced to people. Zero-interest installment repayment is an installment plan that allows consumers to split their retail purchases monthly with no additional interest fees. This has been increasingly used by Generation Z (Gen Z refers to people born between 1995 and 2009). The concept of paying in installments has a long history, dating back to the 17th century. Installment plans for various goods became available in the 19th century. Department stores began issuing private-label credit cards, a precursor to modern BNPL. The early 20th century saw the introduction of installment credit and auto loans. Revolving credit and credit cards gained prominence in the mid-20th century. With the rise of e-commerce, consumers began to prefer convenience and flexibility over traditional credit, which can involve complex terms and debt. Fintech companies then re-branded traditional installment lending as BNPL, incorporating features like "Pay in 4" installments and omnichannel access. BNPL is often presented as a standalone credit product in the form of an interest-free loan repaid in one or more installments. At the point of purchase, the consumer provides details of the account from which the payments will be taken, after which loan repayments occur. However, unlike other credit products, consumers can choose to repay BNPL using a credit card [1]. BNPL experienced a quick rise after 2015 in the United States, driven by its convenience and the ability to spread out payments without interest. The market has seen rapid growth, with the value of BNPL loans in the US increasing from \$2 billion in 2019 to \$24.2 billion in 2021. This growth is particularly evident among younger consumers and has led to increased adoption in various sectors, including apparel, beauty, electronics, and even groceries [2].

Here are the platforms that dominate the Buy Now Pay Later (BNPL) service industry, and how their influence is shaping the consumption behavior of younger generations.

The most famous BNPL platforms on the market now are PayPal, with an impressive 68.1% of shoppers utilizing its BNPL service, and following closely at 25.9% with Afterpay.

With the rise of these services, it is evident that younger consumers, particularly those from Generation Z and Millennials, are increasingly turning to BNPL options. Research indicates that over half of these demographic groups have encountered issues with overdue repayments.

Since BNPL is not the same as traditional credit. Unlike credit cards, BNPL services often don't require a credit check. This makes them accessible to younger users who may not have established credit.

But this ease of access can be a double-edged sword. Without the need for a credit check, teens may not fully understand the financial commitment they're making [3]. The amount of reliance on BNPL should raise concern and awareness towards their consumption behavior. This service aligns with their preference for immediate satisfaction and flexible spending. BNPL typically offers interest-free periods, making it appear as a more affordable alternative to credit cards. While providing convenience and flexibility, it can encourage overspending and normalize debt among young consumers who may not understand the long-term effects. The simplicity of splitting payments makes purchases look cheaper than they are, possibly leading to impulse buys and multiple overlapping repayment plans. Without proper budgeting, this can result in missed payments and credit damage, affecting future financial opportunities. Increasing awareness helps individuals make smarter decisions, adopt responsible borrowing habits, and balance immediate desires with long-term financial health.

How does BNPL service affect Generation Z's consumption behavior? Consumption behavior refers to the action and decision-making processes people undergo when purchasing, people tend to pay more attention to the products quality other than the overall experience. Shows that the high consumption behavior on the use of BNPL service by Generation Z has already had a profound impact on the market, led by 0-interest installment payments. The real question to focus on is, how does the lack of knowledge on how 0 interest installment repayment for teens affects their decision-making.

2. Platforms Strategy

BNPL is often presented as a standalone credit product in the form of an interest-free loan repaid in one or more installments. At the point of purchase, the consumer provides details of the account from which the payments will be taken, after which loan repayments occur. However, unlike other credit products, consumers can choose to repay BNPL using a credit card, which may introduce additional interest charges if the card balance is not paid in full. PayPal vs AfterPay are two of the more popular payment solutions catering to specific business needs. The only similarity between both is that they aim to simplify and streamline transactions, which is desirable for every merchant.

Afterpay's Strategies to Attract and Retain Customers

For example, Afterpay's Pulse Rewards program rewards customers for making on-time payments, unlocking exclusive perks as they move up through tiers like Gold and Platinum. Members can enjoy benefits such as the ability to "take a break" and delay payments up to seven days and access to exclusive brand offers — all designed to "reward consumers good payment habits [4]."

With their partnership with Nift, Afterpay lets users "earn rewards simply by paying on time." After making two on-time payments, customers can choose a free gift or discount from a variety of popular brands right inside the app, giving them "more reasons to love shopping with Afterpay."

Afterpay Plus Card lets customers "use Afterpay anywhere Master card is accepted." This new way to shop with Afterpay gives users even more freedom and keeps them connected to Afterpay's flexible payment options wherever they shop.

However, Afterpay does not allow consumers to select their payment date, which can be problematic if repayment schedules don't align with salary deposit dates. If repayments are missed and a credit card is used to settle the BNPL balance, consumers may incur high interest rates. BNPL providers reserve the right to block new purchases, pass unpaid debts to collection agencies, and report missed payments to credit potentially damaging the consumer's credit score [5].

Afterpay may set spending limits based on consumers account and purchase history. This means not every purchase will qualify for Afterpay, especially larger transactions. Limits can restrict flexibility for big-ticket items [6].

Consumers can only use Afterpay where it is accepted. While their network is large and growing, it's not accepted everywhere, so consumers might have to switch payment methods when stores doesn't offer Afterpay.

Afterpay: Gen Z and Millennials account for 32% of total retail spending in the U.S., and Gen Z's spending on Afterpay has seen a dramatic 400% increase in the last 18 months. This trend reflects BNPL's resonance with younger consumers who value immediate access to goods without the upfront financial commitment. Projections suggest this figure could grow to 48% by 2030 as more Gen Z members enter the workforce and adopt BNPL as a preferred payment method.

Afterpay's registration process is deliberately minimalistic, requiring only a cellphone number, email address, and payment method, making on boarding fast and accessible. This ease of use is a major competitive advantage but also raises concerns about encouraging impulsive purchases without adequate financial consideration.

3. Analysis

3.1. Society loan

It has become relatively common for teens to get their own credit card after they turn 18. Banks encourage link their credit cards to various accounts on different platforms, BNPL gets addictive to teens because of its easy access to register compared to normal credit cards and less verification.

College students take out student loans to pay for tuition, Many studies have shown that financial worries and debt can put pressure on individuals, combining with existing pressures on students, and raising questions about how student debt can affect students' stress levels. The recent national survey, the debt of college students and other related economic conditions is one of the main causes of stress. Among university students, finance is the second largest source of stress among university students. More than one-third of respondents said that the financial situation was painful or difficult to handle [7]. If students take out loans but spend them unwisely on non-essential items rather than education-related costs, the effect on their consumption and long-term financial situation can be significant: By boosting satisfaction with other goods like clothing, meals, or travel. Students will have to cut back later in their school years and even end up with a repayment burden out of their league, thus creating opportunity cost; money spent unwisely could have been invested in more meaningful things like educational programs and skills.

3.2. Internet loan

Zero installment payment affects teens' consumption via social media. Generation Z's consumption behavior is strongly influenced by social media and peer influence, and brands need to attract Generation Z consumers through social media and peer recommendations. For example, rising trends led by celebrities on their own brands, Rhodes lip gloss phone case has increased quickly in sales after Hailey Bieber's promotion. Internet influencers often use their image to create trends on social media and launch their own brand, associating the product with their personal IP. Consumers may feel the urge to purchase compulsively so they don't miss out on each viral trend.

This verifies that while BNPL platforms offer convenience, there is a pressing need to address the knowledge gap regarding financial management among teenagers. Understanding how 0-interest installment repayment options affect their decision-making processes is crucial. If young consumers can be equipped with better financial literacy, it may empower them to make more informed choices about their spending habits in a way that balances immediate desires with long-term financial health. Developing educational programs focused on personal finance early in their lives could potentially mitigate the negative impacts of BNPL services, allowing them to navigate their financial futures with confidence.

The popularity of 0-interest installment payment has changed the consumption concept of teenage consumers. On the one hand, it encourages consumers to pay more attention to immediate satisfaction and ignore long-term financial planning; on the other hand, it may also cause some young consumers to fall into the risk of excessive consumption and debt accumulation. For example, some studies have pointed out that many post-2000 college students are reluctant to discuss with their parents when they are short of money, resulting in the problem of advanced consumption not being alleviated.

Based on consumer behavior experts, impulsive buying is a sudden, unplanned purchase driven by unintended and hasty reactions to stimuli. Impulsive buying is a shopping action that occurs suddenly, unplanned, and pleasure-oriented, where individuals are often influenced by emotions and immediate desires. Consumers buy without consideration because they are influenced by strong and unintended urges. Impulsive buying can be driven by internal consumer motivations and situational factors [8].

Teenagers usually lack basic financial knowledge and financial management ability, dependence on installment payments leads them to an overall compulsive consumption behavior. What people think is “0 interest” could be a word game, platforms can charge extra commission during each payment, debt gets higher, consumers run out of ways to pay, not only damaging their credit score, but also leads to a rapidly growing interest expense. BNPL makes easy money via transaction fees through merchants they partner with and commission.

Table 1: Researched Data on BNPL Originations by Quarter 2019-2021

Source: CFPB

Year	Loan Originations (Millions, left axis)	Debt Obligations (\$ Billions, right axis)
2003	1.7	0.9
2004	2.6	1.5
2005	4.5	1.6
2006	8.4	1.9
2007	12.0	2.7
2008	15.0	3.5
2009	18.0	4.1
2010	22.0	4.5
2011	30.5	5.2
2012	38.4	6.4
2013	48.5	6.7
2014	61.3	8.0

This In Focus discusses the BNPL financing and potential policy issues in this market. In Table 1, the CFPB released an interpretive rule in May 2024—in effect as of July 30, 2024—that treats BNPL as equivalent in some ways to a credit card and mandates the Truth in Lending Act. Disclosures and the right to dispute charges. Legislation introduced in the 118th Congress would overturn the rule using the Congressional Review Act or mandate further study before rule finalization [9, 10].

4. Conclusion

As a financial instrument, 0-interest installment payment may affect the psychological accounts of teenage consumers, which in turn affects their consumption decisions. BNPL does sound trivial. This payment system scheme looks very attractive to those on a limited budget. We can imagine, buyers can directly obtain the desired goods without thinking about the current cost. The benefits of Buy Now Pay Later (BNPL) that attract the younger generation include the ability to access products immediately without paying the full amount upfront, making expensive purchases feel more

affordable through small, manageable installments. This aligns with their desire for instant gratification and flexibility in budgeting. BNPL often comes with interest-free periods, which makes it seem like a cheaper alternative to credit cards. At the same time, the quick, app-based approval process and seamless integration into online shopping match their preference for convenience and speed. Additionally, BNPL requires minimal credit history, appealing to younger consumers who are new to borrowing and may have limited access to traditional financing.

For example, consumers may regard installment payment as a "free" way of consumption, thus ignoring their potential financial risks.

The "trap" in BNPL is not the form of interest, but in the lack of transparency and cognitive asymmetry. Teens not managing their expenses correctly leads to serious downsides, like not being able to pay on time, which results in a low credit score, just like creating a no-win situation. The existence of BNPL harms its users. Such impacts trigger impulsive buying and over-consumption intention, especially in buying only desirable products but not necessities. In addition, BNPL can also support Generation Z stereotypes about instant gratification, where this generation can enjoy goods without having to save first. The authenticity of the savings on each purchase depends on the utilization rate and the consumer's self-control over funds.

Considering all of the above, BNPL service can have a negative effect on teens' consumption behavior due to their limited understanding. This leads to consequences like overdue payments and extra late fees.

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