

## **Psychological Determinants of BNPL**

### **Abstract**

**Purpose:** This study explores the psychological determinants of buy-now-pay-later (BNPL) use in the UK and reviews the efficacy of existing payment constructs.

**Design/methodology/approach:** A total of 533 BNPL users engaged in story stem completion. Template analysis was used, supported by the identification of four BNPL sentiment groups to enable comparison.

**Findings:** Whilst positive attitudes towards BNPL dominate, other psychological determinants are apparent to a varied extent. Psychological distance and ownership of borrowed money are redolent, while transparency and transaction convenience are less appreciable. BNPL users understand temporality beyond its current conceptualizations. Some users construe BNPL as a ‘savings’ product, and hence payment format conceptualizations may be erroneous. Those with a positive sentiment foreground BNPL’s consumption and budget management benefits. However, the potential for unintended consequences is manifest across all users.

**Research implications:** The potentially unwanted consequences, or dark side, of BNPL use in the UK are highlighted. The specified constructs, whilst helpful, do not particularize the complex interconnected nature of the psychological determinants of BNPL use. Improved conceptualization offering richness and clarity is needed – temporality specifically requires consideration.

**Practical implications:** Users’ sophistication and misunderstanding are both evident, necessitating fuller conversations among various stakeholders, including, providers, policymakers, consumers, and advocacy groups.

**Originality:** This research advances the scarce literature exploring consumers' BNPL use determinants and challenges current conceptualizations surrounding payment format perceptions.

**Keywords:** BNPL, attitudes, pain of payment, payment transparency, psychological ownership of borrowed money, transaction convenience, BNPL attitudes, story stem completion

**Research type:** Research paper

# Psychological Determinants of BNPL

## 1. Introduction

Access to digital technologies changes consumer behaviour – potentially facilitating unsound practices (Roberts and Pirog, 2013). This is especially evident in markets adopting advanced technologies, such as deferred cashless payment, without consumers embracing precursors e.g. debit/credit cards, or, where swift deployment incorporates sophisticated functionality. This characterization ably describes buy-now-pay-later (BNPL) implementation in the United Kingdom (UK) (Kollewe and Makortoff, 2021).

The development of BNPL can be viewed as a fintech (financial technology) makeover of the consumption ecosystem. Providers are attempting to transform consumers' retail experiences and reconfigure the value proposition to alter decision-making processes and consumption patterns. However, BNPL technology also raises concerns about the potential for over-indebtedness, as some consumers may be tempted to accrue more debt than they can easily repay. Additionally, BNPL is not currently subject to the same regulations as traditional short-term credit, which raises further concerns about consumer protection and the need for increased oversight (Financial Conduct Authority (FCA), 2021). Therefore, a multi-faceted understanding is required of what determines consumers' BNPL use and how such experiences relate to possible consequences – both beneficial and injurious. This is imperative to help consumers, providers and regulators comprehend the potentially dark side of this form of fintech, as well as its concurrent capability to democratize access to short-term credit.

With 5 million users, the UK BNPL market almost quadrupled in 2020 (Statista, 2022) through established BNPL brands' aggressive growth (e.g. Klarna, Clearpay, Laybuy) and new player entry (e.g. 'PayPal Pay in 3', 'Apple Pay Later'). BNPL has low consumer

adoption barriers and is particularly popular among younger cohorts (Kollewe and Makortoff, 2021), such as Millennials (born 1980–1994) and Generation Z (born 1995–2009), who use BNPL to buy essentials, like food (Citizens Advice, 2022a) and luxuries (Mintel, 2022). Such growth suggests users, and particularly those who are younger, have a receptive attitude to BNPL.

BNPL users can stagger payments with no interest or fees, unless repayment is late/missed, or elect a longer settlement period – offering enhanced personal finance convenience and flexibility. Whilst such BNPL benefits are often discussed, technology-related challenges, including low payment transparency (Soman, 2003), decreased psychological ownership of borrowed money (Sharma *et al.*, 2021), and wider implications of BNPL use, remain under-researched. Moreover, this fast-growing market has received insufficient regulatory attention (Financial Conduct Authority (FCA), 2021). This is evident in the UK and other developed markets, such as Australia, Germany, and the USA, and has raised consumer protection concerns, particularly given the significant harm that may emerge (Gov UK, 2021).

Unsurprisingly numerous calls to improve understanding of consumers' interactions with such technology-based cashless payment exist (e.g. Fook and McNeill, 2020; Johnson *et al.*, 2021). Although BNPL receives media attention (Kollewe and Makortoff, 2021), given its newness, provider proliferation, and regulatory dearth, it is essential to develop an enhanced understanding of how consumers engage with BNPL to manage their personal finances, and, hence, its role in the broader consumption landscape. There is minimal academic enquiry concerning BNPL. Schomburgk and Hoffmann's (2023) work is a notable exception. They examine how mindfulness reduces consumers' BNPL usage and affects financial and overall wellbeing but call for future work to consider the effect of additional determinants (e.g. pain of payment, transparency) on BNPL usage and associated consumer

wellbeing outcomes for both users and non-users. This paper responds to this call and aims to identify multiple psychological determinants of BNPL use and gauge the value of using these constructs within this new Fintech service context.

This research, therefore, contributes to the scant BNPL literature in several respects. Firstly, to the best of our knowledge, this paper is one of the very few studies to explore the psychological determinants of UK consumers' BNPL usage, utilizing constructs identified in the broader consumer financial management literature i.e. attitudes (Petty and Cacioppo, 1986), pain of payment (Prelec and Loewenstein, 1998; Soster *et al.*, 2014), transparency (Soman, 2003), psychological ownership of borrowed money (Sharma *et al.*, 2021) and transaction convenience (Boden *et al.*, 2020). Despite previous calls (Schomburgk and Hoffmann, 2023), these determinants have received little academic attention in BNPL research. Secondly, whilst extremely limited research has investigated consumer experience with BNPL, current knowledge is limited to Australian consumers' BNPL usage (Fook and McNeill, 2020; Schomburgk and Hoffmann, 2023). Finally, given the fast market growth of BNPL in the UK, which is currently absent regulation, this paper advances understandings of BNPL use and its psychological determinants to illuminate its potentially dark and emancipatory consequences. Therefore, this research has both theoretical and practical importance, as it adds to the scant existing knowledge concerning BNPL use in the UK.

This paper first provides a brief overview of the nature of the sector – drawing on government reports, regulatory publications, emerging academic work on BNPL alongside more established and wider treatments of consumer finances. Given the nascent BNPL literature and the exploratory nature of this research, the paper then reviews several key concepts that may help understand the BNPL phenomenon. Next, the research approach is highlighted, followed by the findings. Finally, discussions and implications are provided.

## 2. Literature Review

### 2.1 Research Context

In the UK, BNPL is an unregulated fintech product (FCA, 2021). BNPL is available for both online and in-store transactions. Differences derived from BNPL schemes, including different repayment cycles, amounts and overdue payment treatment, can generate consumer uncertainty (see Table 1). BNPL is particularly popular among the young and those who live in economically deprived areas (Guttman-Kenney *et al.*, 2023). Users are also under-informed of BNPL's potential harms, including the risk of indebtedness. To illustrate, BNPL providers position themselves as interest- and fee-free schemes, insulating them from having to conduct formal affordability checks (FCA, 2021). Unsurprisingly, this raises concerns among regulatory bodies (FCA, 2021), independent parties (Citizens Advice, 2022b), and academics (e.g. Fook and McNeill, 2020; Guttman-Kenney *et al.*, 2023; Johnson *et al.*, 2021) regarding how, for instance, to regulate such fintech products, and how to protect consumers from potential risks. To address this, the UK Government (Gov UK, 2021) has announced the BNPL sector will be FCA-regulated.

*[Table 1]*

Consumer reliance on BNPL spending for essentials is extremely concerning and, given rising living costs and inflation (Bank of England, 2022), it is plausible that limited, or declining, consumer budgets could trigger heightened BNPL adoption. Furthermore, Citizens Advice (2022b) reported that two in five BNPL users borrowed money to meet their repayments – credit cards being the most popular mechanism (26%). Repaying BNPL through further borrowing is troubling as it can trigger additional financial burden, with its attendant consumer risks e.g. extra costs added to repayment. It is, therefore, evident that

such practices underscore the requirement to understand the psychological determinants of BNPL use and the resulting consumer consequences, be they good or ill.

As discussed, the existing marketing literature addressing BNPL is underdeveloped. There is negligible scholarly work that has studied BNPL spending from an economic perspective (Guttman-Kenney *et al.*, 2023), or considered BNPL and impulse purchase in relation to apparel and over-consumption (Fook and McNeill, 2020), or financial and overall wellbeing (Schomburgk and Hoffmann, 2023), or examined its regulation (Johnson *et al.*, 2021) or assessed BNPL products (Aalders, 2023). This scarcity fails to respond adequately to the rapid development and pervasiveness of BNPL in the marketplace. There is an urgent need for further investigation.

The following review is, therefore, developed upon the extant, albeit limited, BNPL literature, and draws on promising material from credit card or mobile payment contexts, as an approximate analogue. Whilst this offers a useful lens for exploration, this literature is itself not fully formed and is likely to evidence fluidity and ambiguity, especially as there is limited current work to provide a comprehensive perspective from which to understand BNPL use (excepting Schomburgk and Hoffmann, 2023). Therefore, when such concepts are extended to a novel and evolving sector, such as BNPL, additional complexities can emerge, and this requires careful transfer to enable sufficient contextualization to the BNPL phenomenon. Therefore, the remainder of this section provides a critical appraisal of attitudes, pain of payment (coupling and decoupling), transparency, psychological ownership, and transaction convenience to build a conceptual foundation for the current research.

## **2.2 Understanding Psychological Determinants of BNPL Use**

There is limited research concerning how payment formats influence consumers' product value perceptions and brand interactions (Shah *et al.*, 2016). The literature suggests

consumers' interactions with payment formats vary, e.g. between cash vs. credit cards (e.g. Prelec and Loewenstein, 1998) or mobile payments (e.g. Boden et al., 2020). Determinants including the attitude, pain-of-payment, transparency, and psychological ownership of borrowed money affect consumers. These concepts provide part of this study's conceptual foundation.

### **2.2.1 Consumer Attitudes**

Attitude is a useful concept in understanding young consumers and their financial management. Previous research often includes attitudes towards money (Utkarsh *et al.*, 2020), credit card use (e.g. Lin *et al.*, 2019; Zainudin *et al.*, 2019) or technology-aided payments, such as mobile payment (e.g. Koenig-Lewis *et al.*, 2015) and BNPL (Schomburgk and Hoffmann, 2023). Thus, attitude has merit in understanding BNPL use.

Attitudes can be defined as conscious or automatic “general evaluations people hold in regard to themselves, other people, objects, and issues” (Petty and Cacioppo, 1986, 4). BNPL offers consumers both potential benefits and detriments (FCA, 2021). BNPL benefits are often associated with the flexibility of splitting costs or delaying payments, easily available interest-free funds, and greater access to goods (Fook and McNeill, 2020). The possible detriments of BNPL being viewed as indebtedness, overspending and unnecessary purchasing (FCA, 2021) Thus, when processing information, consumers may form attitudes towards BNPL, e.g. (dis)like or (dis)trust that affect their BNPL use, and these warrant exploration.

### **2.2.2 Pain of Payment and Payment Transparency**

Pain of payment (or pain of paying) is the psychological burden, or painful state of mind (e.g. pain felt) when consumers purchase (Prelec and Loewenstein, 1998; Soster *et al.*, 2014).



Different payment formats bear different degrees of psychological pain, resulting from varied levels of payment transparency (Kamleitner and Erki, 2013; Liu and Chou, 2020; Liu *et al.*, 2021b; Shah *et al.*, 2016; Soman, 2003). Here, transparency is defined as the “relative salience of payment” (Soman, 2003, p.175), which is a function of the payment format and the amount paid. As the degree of payment transparency rises, so does the pain of payment (Soman, 2003).

Previous research suggests that in comparison to credit card, cash payments have higher pain intensity (Chatterjee and Rose, 2012) and transparency (Soman, 2003), whilst credit card payment reduces ‘amount salience’ (Kamleitner and Erki, 2013). It is argued, given the lowest physical form and amount salience, that electronic and mobile payments have limited transparency (Liu and Chou, 2020). Whereas, the greater tangibility associated with cash, e.g. being able to hold it (Zhou *et al.*, 2022), means paying with it leaves a more intense memory, and given its instantaneous effect, it is more painful. Hence, unlike cash, credit card payments involve little mechanism interaction, as the dominance of contactless technology only requires users to swipe or tap and, usually, repayment is not immediate (Zainudin *et al.*, 2019) and is obscured “... by combing multiple distinct purchases on a single bill” (Gafeeva *et al.*, 2018, 63).

Payment transparency is also affected by the perceived mental ‘distance’ of the payment to purchase, where the more payment is ‘decoupled’ (i.e. is deferred into the future), the less pain is associated with the payment (Boden *et al.*, 2020; Prelec and Loewenstein, 1998). Conversely, where payments are tightly ‘coupled’ to consumption, payments should evoke dedicated thoughts regarding the benefits being financed (Prelec and Loewenstein, 1998). Thus, when a payment is made, theoretically, there should be some degree of mental connection in the consumer’s mind between the payment transaction and consumption (Liu and Chou, 2020). Many argue that the stronger the association, the more motivated

consumers are to pursue the benefits associated with the cost (Gourville and Soman, 1998; Prelec and Loewenstein, 1998; Soster *et al.*, 2014). However, the psychological link between payments and benefits can be altered when consumers interact with a new consumption mechanism, such as deferred transactions (which includes BNPL), where payments and benefits are disaggregated (Chatterjee and Rose, 2012; Siemens, 2007).

The debates above can be extended to BNPL, as the low level of transparency and pain of paying using credit cards or mobile payment may be analogous, and Schomburgk and Hoffmann (2023) call for research that considers BNPL use and both concepts. BNPL payments are clearly delayed (e.g. in terms of settlement or repayment time), and hence the psychological link can be temporally decoupled – becoming less intense, or salient. This position is also consistent with Siemens’ (2007) argument concerning credit cards, firstly, because possession occurs before *full* payment. Therefore, pain of payment is decoupled from purchase (gratification) – enhancing risk-taking behaviour (Prelec and Loewenstein, 1998) or misuse (Zainudin *et al.*, 2019). Secondly, point-of-purchase temporal separation of transaction costs and benefits can facilitate (greater) spending (Kamleitner and Erki, 2013; Prelec and Loewenstein, 1998). Thus, given the notions regarding credit card use – i.e. spreads delayed payments, or mitigates, psychological pain (Boden *et al.*, 2020; Chatterjee and Rose, 2012; Shah *et al.*, 2016; Zainudin *et al.*, 2019) – such effects are likely when using BNPL, effectively distancing consumers.

Psychological distance consists of four dimensions: temporal (e.g. now vs. future), spatial (e.g. here vs. there), probabilistic (e.g. high vs. low) and social (e.g. own vs. borrowed), and indicates how close to something consumers subjectively feel – and in this context, specifically payment formats (Polman *et al.*, 2018; Trope and Liberman, 2010). The temporal and social dimensions may particularly elucidate the BNPL context, as providers often emphasize “pay later” and “spread the cost” service features, evading notions of credit

(i.e. borrowed money) and, hence, increasing the perceived purchasing power of money (Polman *et al.*, 2018) accessed through BNPL. Such positioning may heighten psychological distance – therefore, effectively further separating user spending from ‘the now’, ‘their own’ and, given BNPL’s online prevalence, ‘the here’.

Additionally, psychological distancing may be intensified by absent regulation, which clouds payment transparency – making BNPL essentially ‘covert credit’. This has implications for understanding the psychological determinants BNPL use. For example, the pain of payment may become more evident or even prolonged, for instance when unintended, or undesirable, consequences emerge (e.g. extra charges and interest incurred through overdue payment). These unintended consequences suggest that the pain of payment can vary between individuals, payment formats and post-purchase outcomes, such as (product) satisfaction (Soster *et al.*, 2014), emotional attachment to products (Shah *et al.*, 2016), and psychological ownership of objects (Kamleitner and Erki, 2013) or borrowed money (Sharma *et al.*, 2021). For BNPL, the latter appears to be a prime focus at the post-use stage. The next section briefly discusses this concept.

### **2.2.3 Psychological Ownership of Borrowed Money**

This is a distinct construct proposed by Sharma *et al.* (2021, 498) who define it “as the extent to which funds that are available to be borrowed feel like one’s own money”. This helps understand how consumers interact with borrowed money, as they can experience lesser, or greater, psychological ownership through a continuum that captures “a consumer feeling like borrowed money is not all their own money at one end, to feeling like borrowed money is entirely their own money at the other end” (Sharma *et al.*, 2021, 499). Zhou *et al.* (2022) argue that cash is perceived to have superior purchasing power than digital money given greater psychological ownership and reduced distance. This indicates the relationship

between payment formats and purchasing power is intricate, involving intervening concepts that help clarify the relationship.

The above suggests that psychological ownership of borrowed money also varies between individuals and payment formats. It is this subjectivity that matters to consumers, rather than the objective ownership of the funds. Applying this to BNPL, users at one end of the continuum may consider funds belong to the specific BNPL lender – therefore, access is only temporary until fully repaid. Conversely, users at the other end perhaps consider such BNPL funds as theirs or that they are using *their* future money.

Greater psychological ownership of borrowed money demonstrates more positive feelings as the borrowed funds offer “a sense of efficacy and control”, or even lend confidence to wealth and independence (Sharma *et al.*, 2021, 499). Liu *et al.* (2021a) found that the sense of control fully mediates the impact of quick response (QR) code payment methods on payment pleasure, demonstrating consumers feel a higher sense of control when using QR code payment and this, in turn, improves payment enjoyment. Extending this view of the sense of efficacy and control to BNPL contexts, it is likely that the numerous BNPL offers facilitate consumers’ access to funds and possession of desired products without delay. Sharma *et al.* (2021) also found that psychological ownership of borrowed money positively predicts consumers’ willingness to borrow money using credit cards and loans. However, whether this applies to wider credit mechanisms is unknown. Hence, this research begins to address the call to explore how psychological ownership influences consumers’ financial decisions within BNPL.

#### **2.2.4 Transaction Convenience**

Convenience is a key factor influencing consumers’ willingness to pay (Boden *et al.*, 2020). Generally, the greater the payment format’s convenience, the greater consumers’ willingness

to spend. For those adopting digital payments, compared to credit cards, convenience mediates mobile payment and willingness to pay (Boden *et al.*, 2020). This is possibly because consumers perceive mobile payment as faster and more convenient, requiring lower effort. This research anticipates that BNPL will be associated with such convenience, given the common practices and positioning of BNPL (see Table 1). This raises concerns and creates a situation where consumption and debt may be heightened – warranting further research, specifically qualitative investigation, notably absent from the domain.

Figure 1 illustrates a simplified theoretical framework that forms the basis of this research.

[Figure 1]

### **3. Research Methodology**

The current research is exploratory given the limited literature on BNPL and more broadly payment format use determinants. Thus, interpretivist qualitative research (through projective techniques) with younger UK consumers was adopted to explore dominant BNPL schemes (Braun *et al.*, 2019) and hence investigate what determines BNPL use and illuminate its possible consequences. As outlined previously, BNPL is reportedly popular among younger cohorts, such as Millennials (28-42 year old) and Generation Z (13-27 year old) (Kollewe and Makortoff, 2021); hence those aged between 18-42 are targeted. The data were generated via a research panel. Filtering questions ensured participant eligibility: 18-42 years, currently residing in the UK, and had previously used BNPL. This led to a sample of 533 qualified responses.

Participants were asked to develop a short ‘story’ detailing what happens next and why in response to a stem (hypothetical scenario centred around shopping presented

textually, accompanied by visual stimulus – online-store checkout page including four BNPL options). Story stem completion is an innovative method and begins to address Fook and McNeill’s (2020) call for BNPL research to apply different techniques.

By “... providing ambiguous stimulus material, [projective techniques, including story stem completion] are supposed to create conditions under which the needs of the perceiver influence what is perceived, and people ascribe their own motivations, feelings and behaviours to other persons in the stimulus material, externalizing their own anxieties, concerns and actions through fantasy responses” (Kitzinger and Powell, 1995, 348) to make sense of the writing task. By completing the story, participants may reveal things about themselves, their views, or experiences, perhaps unconsciously, hence avoiding uncomfortable positions if questions were asked directly (Clarke *et al.*, 2017). Story stem completion accesses wide ranging responses, including socially undesirable ones – important when issues may be viewed negatively; suits sensitive topics, which this study addresses; gives participants control and allows for creativity; is theoretically flexible; offers robust and easy-to-implement comparative design options.

### **3.1 Story Stem Completion**

#### **3.1.1 Data Generation**

Story design and the sampling were guided by Clarke *et al.*’s (2017) principles and care was taken with completion instructions, stem content, piloting, and analysis (Clarke *et al.*, 2019). The participant instructions sought to balance task openness and boundaries (Clarke *et al.*, 2017). A single, short, and simple story stem concerning payment decision at point-of-purchase provides maximum response scope and helps distinguish associated understandings, assumptions, and potential consequences: “Sam spots a coat online that looks fantastic. It’s a little expensive, but worth the extra, even if Sam wasn’t really shopping for one today! When

it comes to pay, Sam sees the following [online checkout stimulus]:”. Given all participants were BNPL users, the story should resonate, its sparse detail encourages variation through ambiguity (e.g. concerning class, gender, race, age) but simultaneously focuses attention on payment format choice, and by using third-person, fosters socially (un)desirable responses (Clarke *et al.*, 2017).

To ensure the intended outcomes were achieved, a pilot was conducted. Minor semantic changes were made. To further enhance data quality, study stories were examined after 150 responses to assess task engagement, evaluate the initial sentiment variation, and ensure socially (un)desirable responses were evident (Clarke *et al.*, 2017).

### **3.1.2 Data Analysis Approach**

Stories can be analysed in several ways but are not self-report data and can, therefore, contain humour and fantasy that require sensitivity. To “explore horizontal patterning in a more structured way (e.g. patterns across particular facets of the stories or in response to particular analytic research questions)” (Clarke *et al.*, 2019, 12), the theoretical sensitizations depicted in Figure 1 are operationalized through template analysis (King, 2012). This approach ensures that each possible determinant is considered as an a priori theme, but also makes use of the inherent flexibility of template analysis, which does not limit the development of hierarchical codes or the emergence of integrative or lateral themes (King, 2012). To facilitate quality checks, independent coding was undertaken by two researchers and critical comparison conducted, as King (2012) suggests, the systematic nature of template analysis supports this endeavour through the documenting of emerging thinking and modifications to the template.

## **4. Findings**

Among the 533 participants, 67.4% identified as female (31.7% identified as male). Most were young (mean=28.55, SD=5.11), predominantly white (80%), nearly 72% were in full/part-time employment, only 9.8% were students. Just over two-thirds used BNPL rarely or sometimes (31% and 36.7% respectively) whilst nearly one-third used BNPL often or almost always (26% and 6.3% respectively). To support comparison, common in story stem completion, participants were categorized into four ‘sentiment’ groups using BNPL understandings in their stories: negative (n=45), neutral (n=46), balanced (n=139) and positive (n=247), the 56 stories not mentioning BNPL were excluded. Sentiment was gauged by those that presented only ‘positive’ or ‘negative’ associations or consequences of BNPL being ascribed as such. Stories that displayed both positive and negative sentiments were coded as ‘balanced’ (no account was taken of sentiment proportionality, merely the presence of both). Those stories that described actions, for example using a debit card or BNPL to purchase, or with dispassionate reference to associations or consequences were coded as neutral. After the coding framework was agreed, two independent coders first assessed all the stories, discrepancies (17 in total) were discussed and resolved.

### **4.1 BNPL Attitude**

Understandably, the clearest BNPL attitudes were evident in the negative and the positive sentiment groups (see Table 2). What is unmistakable, respectively, is the transition from BNPL mistrust and conviction that use will ensnare the unsuspecting and unsophisticated, to the perspective that BNPL is a savings product, to be wielded by savvy consumers, an emancipatory tool to enable contemporary living. These themes also resonate with the findings related to other determinants and serve to anchor the tonality of participant views in the sentiment groups.



[Table 2]

## 4.2 Pain of Payment

The psychological burden of payment is palpable in the stories (see Table 3). In relation to this, the psychological link between [deferred] payment and [immediate] consumption is central, and this foregrounds notions of (de)coupling. This concept affords the most helpful means to explore issues surrounding pain of payment in the BNPL context.

Evidence of decoupling increased between negative and positive sentiment groups (24% and 58% respectively), and the inverse (49% and 36% respectively) was broadly evident for coupling. The most evident pattern was decoupling in the positive group (58%) – where BNPL was perceived constructively without appreciating concomitant costs.

[Table 3]

### *Decoupling: greater psychological distance between purchase and payment*

*Negative sentiment group:* Consumer benefits predominate, instalments were ‘more manageable’ and goods ‘more attainable’ (24%). Language use suggests this extends consumers’ financial capacity, but *repayment* was implicitly appreciated. BNPL was, thus, an affordability tool, deferring impact on budgets. However, a specified time horizon was keenly perceived. Therefore, the repayment period was key, rather than any long-term implications from additional interest/charges.

BNPL is perceived to facilitate unneeded, hedonic impulse purchases, therefore, was a temptation. Stories suggest such behaviour is socially undesirable and consumers ‘should

know better'. Hence, whilst foregrounding consumer benefits, such behaviour was consumer weakness, not BNPL provider or retailer related.

*Neutral sentiment:* The dominant understanding (41%) was that consumers knowingly defer costs through instalments, stopping short of identifying these as repayments. Rather than construed as 'impulse', the purchase is deemed 'unplanned' and the product 'worth the cost', especially if repayment period and amount accord with customers' ability to repay.

*Balanced sentiment:* Decoupling was evident (41%) and locating 'what suits' consumers' financial situations was paramount. Balance between instalments and available funds was sought to manage budgets. This restricts guilt and stress, and phrases used include 'won't go broke' or 'have [your] cake and eat it too'. Stories suggest the arrangement should be 'fair' – presumably to consumers, and, perhaps, BNPL providers.

*Positive sentiment:* Unsurprisingly, 58% decoupled BNPL spending benefits and costs. The refrain 'spread the payments, split the cost' dominates. BNPL was treated as a consumer-retailer agreement to defer total payment. This makes goods 'feel cheaper'. Behaviour is detailed first (in active voice), with thinking employed post-fact to justify purchase. In a few, this is replaced by 'belief' – BNPL is *the* 'smart choice'.

Provider brands are foregrounded, demonstrating awareness and established preferences. Consumers used their favoured BNPL brand to better manage their finances, and post-purchase dissonance, whilst allowing access to what they need, want or *deserve*. Therefore, expressions including 'amazing' and 'great' are used and 'interest-free' is privileged if connection to repayment noted.

*Coupling: limited psychological distance between purchase and payment*

*Negative sentiment:* There was a dichotomy between what Sam *did* compared to what *should* be done. The seeking of temperance in terms of impulse purchasing, and, as importantly, knowledge of the different payment formats fosters this normative position.

There was a sense of rendering advice from sage to novice or, to a ('naïve'/'stupid') fool in extremes. Advice favours cognitive decision-making ('thinking carefully', 'consider'). However, Sam or other customers (not the participant) were unable to resist seductive BNPL purchasing. BNPL was viewed suspiciously and 'bears the weight' of indebtedness, interest and additional charges. Therefore, longer-term financial horizons prevail and BNPL spending and the failings of buying impulsively damage these. A payment preference hierarchy was also evident: first debit card, as this relates available personal funds [overdrafts not mentioned]; then credit card, viewed as reliable, to be used sparingly, managed actively and valuable for the protection it confers when spending online, and BNPL was the 'lender of last resort'.

*Neutral sentiment:* 20% evidence coupling, the tone was comparable to those in the neutral sentiment group demonstrating decoupling. The chief difference was explicit acknowledgement of credit through repayment. BNPL was 'a means to an end' and limited acknowledgement of charges, and interest, was evident – the assumption was that repayments *will* be met.

*Balanced sentiment:* An equal number demonstrated coupling (42%) as decoupling (41%). Compared to the negative sentiment group evidencing coupling, the tenor was less judgemental although BNPL was the least-preferred payment form. When used, cognitive appraisal of the consumers' financial capabilities (assumptions around timing and level of

salary payment) to facilitate repayment and capacity to actively manage credit were central. Here, considerable credence was given to the tempo and rhythm of repayments.

The responses often suggested other payment formats, saving or postponing purchase, demonstrating significant consideration of BNPL benefits and costs and its merits vis-à-vis other payment formats.

*Positive sentiment:* 36% coupled BNPL benefits and costs. Connections made to prior positive BNPL provider experiences were prominent, and trust was central. However, experiences were ‘serial’ engagements – repaid before something is again bought through BNPL. This suggests management of BNPL to access products that would otherwise be unaffordable. Therefore, whilst viewed positively and costs acknowledged, BNPL was regularly used but spending controlled.

### **4.3 Transparency**

Table 4 depicts the distinct views evident in relation to transparency. BNPL timing was primarily noted by the neutral sentiment group (37%), perhaps as their focus was the instalment repayments as a central premise. The positive sentiment group expressed the highest appreciation of BNPL spending (51%), highlighting this format’s ability to enable expenditure and support the meeting of other financial commitments. Interestingly, those in the balanced sentiment group demonstrated the greatest comprehension of the amount spent (22%) but associate it with negative consequences.

*[Table 4]*

*Negative sentiment:* BNPL timing was connected to interest-free periods, different repayment amounts, and repayment schedules. This variation was treated positively, perhaps because such heterogeneity attuned to the cognitive approach lauded by this group and permits ‘calculation’ of what is preferential.

Weight was given to the unintended negative consequences of BNPL spending and its capacity to spiral to problematic proportions. There was a tendency to provide consideration of short-term financial easing against the salient spectre of longer-term usuary. The latter was painted as a likely outcome, swathed in concern and worry, particularly as linked to habitualization.

*Neutral sentiment:* BNPL timing considerations again focused on specific providers’ provisions. However, whilst ‘calculation’ was not emphasized, broad consideration of what was ‘suitable’ transpired. The few (17%) who appreciated BNPL spending, associate it with instalment payment benefits. This concerns managing funds, not identifying it as repayment. There was also limited recognition (7%) of the amount spent on BNPL, beyond the instalment for this specific purchase, and no substantive comment on negative transparency-related issues.

*Balanced sentiment:* Comments on timing (14%) highlighted options as a basis for calculation of preferred instalments and scheduling. Many appreciate BNPL spending (45%) and amount spent (22%). The latter was construed as the consumer’s ability to repay over the selected timescale with available disposable income. Time and funds balancing were central, the goal was identification of the most personally effective approach to accessing goods. There was an implicit understanding that BNPL spending was serial. Hence, there were few negative statements concerning the possibility of accruing debt or additional fees, the

assumption being this arrangement was taken up as a ‘one-off’ and knowing the debt could be met without disruption.

*Positive sentiment:* Akin to the neutral sentiment group, calculation received little emphasis. Instead, consideration rested on what was ‘best’ or ‘suitable’ to the consumer’s preferences or payment timings (51%). 5% were aware of BNPL spending and associated it with instalment payment benefits and the flexibility to manage their funds. However, only a small number identified the amount spent (13%), focusing on transaction amount rather than total, neglecting possible BNPL spending accumulation.

#### **4.4 Psychological Ownership**

The balanced sentiment group (58%) and, unsurprisingly the negative sentiment group (62%), primarily perceived BNPL spending to be borrowed money. Interestingly, the positive sentiment group (45%) also demonstrated a significant appreciation that this was borrowed money. However, an almost equal proportion regarded it as their own (42%). Table 5 portrays the evident variation in terms of psychological ownership of borrowed money.

[Table 5]

##### *Borrowed money*

*Negative sentiment:* Most considered BNPL spending as borrowed money (62%). Additionally, there was a considerable sophistication in descriptions of BNPL ‘workings’. This extended to payment management processes (potential fees and interest) and the relationships between the customer, fintech provider and retailer. Occasionally, BNPL providers were characterized as ‘tricksters’ or as engaged in socially undesirable practices.

Though comments stopped short of recognizing BNPL as unregulated in the UK, or that government consultation was taking place to develop such protections.

The focus surrounding BNPL functioning, and its relationship to borrowed money, addressed payment management, both in terms of amount, but, interestingly, its temporal characteristics – tempo, duration and alignment of outgoing and incoming funds.

Notably, there was an overtone of possible wellbeing damage – financial (developing long-term debt); mental (the propensity for such credit to create anxiety and worry); and, in one case, a statement that it could lead to physical self-harm (suicide).

Hence, the possible negative consequences were judged to outweigh the positive and benefits that were undesirable, e.g. supporting overconsumption, poor consumer decision-making and an ‘unhealthy relationship’ to products that are beyond the customer’s means.

There were also a few stories that erroneously stated that engagement with BNPL affected credit scores – this pattern was evident across most sentiment groups.

*Neutral sentiment:* BNPL spending was seen as borrowed money by 22%. This was primarily through consideration of the monthly ‘repayment’ and seeking to ensure this was minimized to maintain funds available.

*Balanced sentiment:* Most (58%) considered BNPL spending as borrowed money. There was a need for consumer ‘responsibility’ and a ‘realistic’ approach to avoiding negative consequences from overdue payments. ‘Not losing track’ was key and many declarations centred on automating repayment or advocated early repayment. Consumer control was paramount in terms of spending, repayment and broader budgetary concerns. This was sometimes linked to avoidance of indebtedness and addiction – though if this centred on consumption generally or BNPL use specifically was unclear.

*Positive sentiment:* A substantial proportion appreciated this was borrowed money (45%). There was a sophisticated understanding of BNPL workings and its capacity to render choice and flexibility in managing payments and, hence personal funds. For example, several commented on the ability to repay credit early or defer payments through BNPL provider options or by using a credit card to repay. Many also mentioned different terms and conditions, this led to BNPL provider preferences, suggesting provider comparisons. For some, this resolved into trust and connection to one provider. This was supported by an appreciation of account management tools and services. This speaks to oversight and seeking to manage repayments – though the use of deferral strategies suggests that this can be problematic for some.

#### *Own money*

*Negative sentiment:* A small proportion (13%) of the stories offered indications that the funds were treated as their own. Here, the tone was primarily negative. So, whilst there was no mention of repayment or similar, the position was that it was better to use alternative payment mechanisms.

*Neutral sentiment:* A fifth demonstrated this position. The chief difference to those seeing it as borrowed money was the noun used – ‘instalment’. There was also recognition by some that instalment payments meant that if goods were returned the consumer was not as out-of-pocket.



*Balanced sentiment:* BNPL was considered as their own money by 17%. The emphasis was not leaving themselves ‘short’ by spreading costs. This underscores mental budgeting to ensure debits and credits align and do not generate unintended consequences.

*Positive sentiment:* Here, 42% regarded BNPL as using their own money. They often positioned it as ‘extending their funds’ to offset perceived shortfalls or enabling the meeting of other obligations, hence ‘not feeling the cost’ of the purchase. For some this leads them to think they were ‘saving money’ or ‘not spending as much’ – one participant even describing BNPL as discounting. Using BNPL is recommended to others as it enables pleasure through products without immediately paying in full. This, firstly, facilitates ‘product inspection’ and if returned consumers are not waiting for a larger refund. Secondly, BNPL democratizes product access for those with less disposable income.

The overall position is that BNPL is a saving, not credit, product. The stories identify immediate gratification as a key motive and a powerful positive emotional connection to such ‘savings’, which are extolled by this group, who have become BNPL advocates.

#### **4.5 Transaction Convenience**

There was less recognition of the different transaction convenience forms than expected, ranging from 7 to 26% (see Table 6). It was additional account registration and management issues that received most attention by the positive sentiment group, but unexpectedly, also the neutral sentiment group (26%). Rather than seeing these as detractors, they were viewed as positive tools.

*[Table 6]*

*Negative sentiment:* There was limited recognition that BNPL required additional effort (13%). This was viewed positively, supporting payment management to best fit incoming funds and outstanding balance monitoring.

*Neutral sentiment:* Transaction convenience was seldom considered (17%). Some attention was given to the payment plan clarity, ease of comparison and choice enactment to align with consumers' financial budgeting. More mention was made of BNPL app engagement to complete transactions, demonstrating understanding that spending was transacted through a financial services provider, but without value judgement.

*Balanced sentiment:* Where there was recognition of additional BNPL issues (19%), this centres on cognitive engagement to ensure provider selection that best fits (e.g. terms and conditions, account registration/management). A limited number acknowledged that not all consumers may be approved. Some evidenced preference for a BNPL provider based on experience, whilst others felt overwhelmed by the rising number of choices.

*Positive sentiment:* Surprisingly only 13% characterized BNPL as easy, simple or convenient. Some described it as 'safe'. These comments involved account initiation and administration and BNPL integration in retailer sites. 21% recognized additional account choice aspects – particularly payment tempo or additional service provision to support account management. This indicates familiarity and, given the limited number of comments, might indicate that BNPL services are so embedded in these consumers' behaviour patterns that they are ubiquitous.

## **5. Discussion and Implications**

The expanding UK BNPL market, with its minimal consumer adoption barriers, has created a need for improved understanding. This paper sought to describe the psychological determinants of BNPL use and evaluate the efficacy of existing payment constructs in this endeavour by applying the broader literature on consumer financial decision-making. In doing so, this research responds to previous calls to expand consideration of determinants used within other payment formats to BNPL (Schomburgk and Hoffmann, 2023). However, the research additionally seeks to uncover the possible interconnections of such determinates to consumers' BNPL use and the potential consequences. The current research is one of the first to explore BNPL users in the UK – thus, extending the current knowledge base, which addresses Australian consumers (Fook and McNeill, 2020; Schomburgk and Hoffmann, 2023).

## **5.1 Conceptual Implications**

This research contributes to the sparse BNPL literature in several respects. Table 7 offers an overview of the initial propositions from the prior literature, the key research findings, and details of emergent issues.

*[Table 7]*

Conceptually, pain of payment (Prelec and Loewenstein, 1998; Soster *et al.*, 2014), payment transparency (Kamleitner and Erki, 2013; Liu and Chou, 2020; Liu *et al.*, 2021b; Shah *et al.*, 2016; Soman, 2003) and psychological ownership of borrowed money (Sharma *et al.*, 2021) provide useful initial foundations to establish a deeper understanding of BNPL-use determinants and platform the wide-ranging consequences that are apparent among UK consumers. There is capacity to extend the prior literature on consumer financial decision-

making to the UK BNPL marketplace, in particular, transferring determinants used in relation to other analogous payment formats (Fook and McNeill, 2020; Schomburgk and Hoffmann, 2023). However, whilst the determinants used in prior research have resonance in the UK BNPL context, there is variation, and this requires further exploration to appreciate better these differences and their implications, as explored in the possible practical contributions below.

It is clear that positive attitudes toward BNPL dominate, aligned with the benefits of its use (Fook and McNeill, 2020). Negative attitudes are in the minority and centre on the possible detriments that other UK commentators have noted (Citizens Advice, 2021; FCA, 2021). Attitudes toward BNPL are palpable and interconnected with the other evident determinants. If such overall attitudes result from other determinants, frame them or are coeval is unclear and appears to vary between consumers. There are also apparent external factors, e.g. cost-of-living, possible recession, that colour UK consumers' attitudes toward BNPL and are likely to play an increasing role.

This reflects the high degree of consumer subjectivity evident in relation to the determinants (Polman *et al.*, 2018; Trope and Liberman, 2010) that then contributes to the associated consequences that consumers perceive. This helps understand the diverse interconnections apparent between determinants, and the complexities of BNPL use in the UK, that the stories surface. This suggests that BNPL has the capacity to foster more richly figured and nuanced considerations and responses than previous cashless payment formats. This may be due to the more varied and flexible payment possibilities that this form of fintech enables, its extended offer, and attendant platforms, that are all part of BNPL's positioning. Here, a key issue centres on the capacity of BNPL as a fintech product to 'do more' – it provides a consumption experience, moving BNPL beyond being simply a payment format wielded at point-of-purchase to an interactive systemic offer.

Moreover, the current research contributes to this underdeveloped research stream by adopting an innovative approach to uncover darker issues surrounding BNPL payment and revealed possible unintended user attitudes and consequences. Story stem completion (Clarke *et al.*, 2017), as a projective technique, enables the generation of a wide range of rich data to understand personal opinions, as well as experiences associated with BNPL use. The four groups afford effective differentiation between UK participants according to their BNPL sentiment – and provide insights into consumers’ different BNPL experiences and strategies. This approach is beneficial as it facilitates novel exploration of determinants and BNPL use – hence broadening the literature base and theoretical foundation for BNPL research, and enlightening consumer finances research more broadly.

The overview also highlights the potentially unwanted consequences, or dark side, of BNPL use in the UK – be that identified in the negative position of the minority of consumers or, more subtly, raised in the overly positive and potentially naive views of others, who demonstrate a lack of understanding and possible vulnerability. It also provides fresh evidence and timely discussions to the BNPL literature and future research. Here, it is the disentangling of the complex relationships between external factors, consumers financial literacy and vulnerability, attitudes toward the consumption experience that BNPL offers, and the other payment format determinants, that offer a rich ground for future research. The simultaneous consideration of these issues will help elucidate BNPL use and its consequences – both positive and negative.

## **5.2 Practical Contributions**

Practically, the findings facilitate a fuller conversation among various UK stakeholders – including, BNPL providers, policymakers, consumers, and advocacy groups. The remit of such debates is summarized below.

Firstly, evidence indicates a degree of pain of payment and specifically (de)coupling. Despite concerns around repayment ability/cycles and additional interest/charges, BNPL in the UK is predominantly considered a constructive payment form, with little/limited pain being described – especially among the positive sentiment group. Among those demonstrating decoupling across all groups, BNPL appreciation is often geared towards spending benefits, whilst longer-term spending costs are under-represented. Among those exhibiting coupling, unsurprisingly, the bond between benefits and costs is explicit and more cognitive appraisal undertaken. The negative sentiment group continually expound a normative position and greater appreciation of BNPL costs and risks.

These findings suggest that whilst BNPL in the UK carries limited pain or psychological burden for many, coupling focuses on immediate repayment patterns – suggesting that partial consideration is undertaken, and there is a casual disregard for possible longer-term consequences. To BNPL providers in the UK context, could appear positive. This finding gives tentative support to scholars such as Chatterjee and Rose (2012) and Siemens (2007) who propose that the psychological link between payments and benefits can be changed when consumers experience new consumption mechanisms, e.g. BNPL consumption experience. However, the current research findings also suggest that such decoupling is primarily temporal – notably at the point-of-purchase as (payment) pain is appreciably separated from (purchase) gratification. Thus, this offers additional explanation to support the work of Schomburgk and Hoffmann (2023), which alerts that BNPL providers should be careful of the negative association of this fintech service with purchase decisions, payment schemes and consumers’ overall wellbeing.

Secondly, as to BNPL transparency, only negligible appreciation of form and amount salience, as well as timing, is identified. Arguably this is unsurprising given that BNPL products in the UK are not explicitly positioned as ‘credit’. Unlike cash, which has the ability

to be held (Zhou *et al.*, 2022), BNPL is intangible and relatively new. Thus, issues concerning payment transparency, in terms of salience of form and amount, might not be embedded in consumers' minds. Previous work indicates credit card payment reduces amount salience (Kamleitner and Erki, 2013) and this argument seems to hold for BNPL payments. The template analysis (Table 3) provides evidence supporting the element of timing (e.g. payment being spread over a period). This somewhat overlaps with the 'temporal' dimension of psychological distance identified in previous work (Polman *et al.*, 2018; Trope and Liberman, 2010), e.g. paying now vs. future.

However, the literature has a relatively elementary appreciation of transparency (Soman, 2003) and this conceptualization may be underdeveloped in relation to deferred payment formats, and particularly BNPL, as the diversity of available options further compounds consumer decision-making. This partial appreciation implies that considering BNPL transparency through, timing, salience of form and amount may not be sensitive enough to detect, or capture, the nuances of BNPL payments and its management, e.g. how consumers psychologically interact with BNPL transaction process – particularly during the post-usage stage or if unwanted consequences emerge should repayments not be met.

Given payment transparency may be narrowly construed, there is a need to broaden the concept – beyond timing, the salience of form and amount as proposed by Soman (2003). The findings suggest that, in the UK, BNPL transparency appears to be related to psychological distance and ownership of money. Hence, there is scope to reconsider the construct – revisiting timing to include broader temporal concerns, such as repayment tempo (and perhaps BNPL 'rhythms') and longer-terms horizons, and potentially realigning it with psychological ownership. Thus, timing needs to be disaggregated and augmented to provide a richer perspective on the psychological effects of payment. Recent work by Ponchio *et al.* (2019) gives further support to applying different aspects of temporality to personal finance

management, e.g. present and future dimensions, and these too resonate with BNPL. Examining such broader conceptualizations would offer a fuller basis from which to make decisions for BNPL providers but perhaps more importantly for policymakers and advocacy groups.

Psychological ownership of borrowed money refers to the extent to which one feels the borrowed funds like their own money (Sharma *et al.*, 2021). The current research shows clear patterns for the negative sentiment group and balanced sentiment group in the UK, i.e. viewing BNPL as ‘borrowed’ money rather than ‘own’ (Table 5). However, the neutral sentiment group and positive sentiment group have similar proportions exhibiting ‘borrowed’ and ‘own’ perceptions. Interestingly, in the positive sentiment group, BNPL is understood as a ‘savings product’ – possibly lending confidence in terms of managing personal finances. This presents BNPL providers in the UK with additional scope to frame BNPL as more than a payment format and may help position it as part of services offering within open banking.

Furthermore, transaction convenience did not seem to raise major concerns among participants and issues around account or payment management are often viewed positively. Boden *et al.* (2020) found that convenience mediates mobile payment and willingness to pay, how this is interpreted for BNPL also needs revisiting.

Finally, the absence of BNPL regulation in the UK (FCA, 2021; Gov UK, 2021) has raised ongoing concerns regarding consumer protection. The current research begins to add fresh evidence to the scarce literature on BNPL payments. Given the findings above, BNPL providers should adopt measures and resources to help inform their customers, notably, how BNPL products operate, what users will face if repayments are not met to enhance repayment process transparency. These measures should facilitate consumers to establish a fuller and more holistic understanding of BNPL products. BNPL is still of potentially significant harm



to consumers, who may well have to manage unintended consequences, until appropriate regulations can be applied to monitor such fintech companies and products.

## **6. Limitations and future research**

This research has sought to advance the meagre research concerning BNPL. The useful conceptual foundation, innovative methodological design and analysis approach enable the current study to add timely findings and novel insights. The adoption of story stem completion is particularly helpful to unlock participants' mindsets and reveal how they perceive BNPL in the UK – thereby enabling an understanding of the psychological determinants of BNPL use and its varied consequences to be illuminated. The sentiment groups facilitate analysis at the construct level and elucidate the nature and scope of the psychological determinants and BNPL's (unintended) consequences.

Despite this advancement, caution in interpreting the findings is necessary. Firstly, the adoption of a cross-sectional design limits generalizability as does the geographic focus of the research. Secondly, given the qualitative approach, future research should quantitatively examine the underlying relationships between the constructs this research surfaces both within the UK and more broadly. In particular, given the narrow definition of transparency, there is a need to go beyond timing, salience of form and amount. As previously discussed, this conceptualization may under-represent transparency issues. Finally, BNPL continues to evolve both in the UK and across the globe.

However, given its features (e.g. relative novelty, inconsistent practices, unregulated nature and popularity among younger consumers), the partial understanding of how BNPL affects users needs to be urgently bolstered. To address this, and other calls for further BNPL work (Citizens Advice, 2021; Fook and McNeill, 2020; Schomburgk and Hoffmann, 2023),

future studies ought to more fully investigate BNPL's impact on consumers, broadening to other groups, e.g. black, Asian and minority ethnic backgrounds, those on low incomes, or in financial hardship, and extend considerations to investigate BNPL user wellbeing and beyond. Moreover, given the unearthing of wide-ranging temporal issues in the current study associated to the position of BNPL as consumption experience and not merely payment format, future work should also apply expanded understandings. There are also other factors that warrant further investigation, including impulse buying and the influence of using unregulated products on society. These substantial and complex issues make BNPL a rich site for continued inquiry.

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