Easy Payments, Hard Consequences: The Behavioral and Financial Effects of Buy Now, Pay Later in Pakistan

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Abstract

The fast growth of Buy Now, Pay Later (BNPL) products and services has altered the consumer credit environment in Pakistan, providing instant purchasing capabilities to a group of consumers that is largely underserved by standard financial institutions. This paper explores the behavioral and monetary consequences of BNPL adoption, in particular, its effect on compulsive purchasing, attitudes toward product cost, and personal financial well-being. The quantitative cross-sectional research design was used, and data were gathered using the sample of 385 active users of BNPL in the major urban centers in Pakistan. Through the Structural Equation Modeling (AMOS) analysis, it can be identified that the use of BNPL is a significant contributor to compulsive buying behavior and a reduction in the perceived cost of a product, effectively separating the "pain of paying" and consumption. Moreover, the results prove that there is a strong negative correlation between the regular use of BNPL and the financial well-being of users, especially when financial literacy is low. The outcomes emphasize the multiple aspects of BNPL as a financial inclusion instrument as well as a possible source of consumer debt by providing valuable information to regulators and fintech professionals interested in developing a responsible digital credit sector (Williams, 2023).

Introduction

The recent years have seen the global retail market redefined due to the introduction of Buy Now, Pay Later (BNPL) services, the type of payment that enables consumers to acquire goods right now

and to pay them in instalment, usually without any interest. As opposed to the developed economies where credit cards are the order of the day, Pakistan has been described as having a large number of unbanked people and a low credit card penetration. To most Pakistani customers, especially the younger group, the BNPL is the initial available model of formal credit. This industry has been expanding at a rapid rate. The statistics given by the State Bank of Pakistan show that the volumes of BNPL transactions grew by about 247 per cent between 2021 and 2023. This influx indicates that there will be a paradigm shift in the people spending behavior; away towards a cash-based economy to a more digital, deferred payments economy. But the convenience of the platforms, which come with instant approvals and very little credit checks has become an issue of concern about consumer protection and financial literacy (Moon M. A., (2018).) Although the advocates believe that BNPL creates financial inclusion, its opponents argue that it could be exploitative of our cognitive biases and cause people to spend more money due to the illusion of affordability of buying something. In a market with a low financial literacy index, introducing frictionless credit is quite dangerous (Farooq, From Impulse to Imitation: Hedonic Motivation as a Bridge to Counterfeit Consumption. , 2025). This tension is resolved in this study because the authors provided empirical evidence on the effect of BNPL usage on psychological pricing perceptions and compulsive purchasing behavior and finally, the implications of a given tendency on the financial well-being of Pakistani consumers.

Theoretical Background

Although Buy Now, Pay Later (BNPL) services are growing fast in Pakistan, it is essential to scrutinize psychologically and economically the impact of the service on the consumer population. Despite the fact that service providers sell such platforms as the means of flexibility and financial inclusion, the lack of sustainability of such a debt model raises increasing concerns. There are indications that younger consumers are buying products that they would otherwise not buy in case immediate full payment is needed. Creating smaller installments of the larger price of a high quality product, e.g. a PKR 45,000 smartphone, BNPL essentially helps to reduce the direct pain of payment, which makes the pricing of the high quality products appear artificially low. But with the passage of payment cycles, initial convenience can tend to give way to economical pressure; customers are often confronting accrued debts in multiple channels and are often using disposable income to repay them. This danger is aggravated in a national-level situation, where only 40% of adults have basic financial education, where the prevalent access to frictionless digital credit is arguably putting an unready population at risk of serious financial exploitation (Prelec, 1998).

Unlike academic works that remain purely theoretical, this study aims for immediate practical relevance. On the academic level, it opposes the classical models of consumer behavior by addressing them with the facts of digital credit, integrating the theories of behavioral economics into computing future discounting, consumer psychology and its effects on their financial health in relation to price fragmentation. This type of analysis has never been done in the Pakistani setting where a large segment of the population has only recently been accessing formal credit and therefore this study fills that research gap with facts and not conjecture. In practice, the results consider three key stakeholders: consumers, who might erroneously view installments as being more cost-effective than lump-sum payments; providers, who are at this point favoring aggressive acquisition over the open disclosure of possible penalties; and regulators, who are debating whether to encourage industry expansion or take a hose in its gears (Moon M. A., 2024) Since the Pakistani BNPL market is a live economic experiment of millions of people, the study is timely, and it contributes to the understanding as to whether the given innovation will transform into one of the instruments of financial inclusion or the catalyst of a major consumer debt crisis in the upcoming 12 to 24 months (Roberts, 2023).

Literature Review and Hypothesis

Financial Well-being

The financial well-being is not a measure of the amount of money in the account at the beginning of the month, but it is an indication of the degree of financial security that is felt at the end of the pay cycle. According to the CFPB (2015), the true well-being is defined as the guarantee to be able to fulfill the current and future financial needs and the ability to make the life decisions without the urgent economic concerns. This will include discretionary spending including social outings or traveling and also the capability to deal with the urgent needs such as buying children shoes without financial fear. Netemeyer et al. (2018) translated this concept into a psychometric scale that could be used to measure the present financial stress and future security feelings. Nonetheless, when it comes to the situation in Pakistan, these measurements are greatly affected by unstable domestic elements that are not always taken into account in Western frameworks. These encompass the need to sell assets, like jewelry, to meet medical crises, the loss in the real income because of 20.25% inflation annually, and the financial insecurity of the precarious employment or un-recovered informal loans in extended family lines.

Credit is a two-sided financial device; in terms of the usage, it may be an indispensable tool to finance something critical like a work laptop or a decent fridge or a snare. When used as a discretionary consumption of high frequency, e.g. fast fashion, credit becomes a slow-acting poison, which is

further facilitated by the fact that Buy Now, Pay Later (BNPL) is presented as a budgeting improvement tool and not a real debt commitment. Martinez and Lopez (2023) noted that, in cases where heavy users were requested to provide their current liabilities, most of them revealed bank loans and credit cards but did not mention active BNPL plans at all. These users, psychologically, did not view installments as debt, but as the normal operation costs just like mobile top-ups or utility bills. Therefore, those with a balance of PKR 150,000 to 300,000 in their accounts were still assured that they had almost no debts (Moon, M. A., et al.). This is worsened by the fact that in Pakistan, there is a regulatory blind spot: since BNPL providers are not currently required to disclose their debts to credit bureaus, these debts are effectively locked away in the psychology of the consumer, and in the official financial statements (Moon et al., 2018). This forms a very dangerous roadmap where the consumers end up seeking formal financing in form of a mortgage only to realize that their built up and unreported leverage has already crippled their solvency (Thaler, 1985).

Compulsive Buying

Compulsive buying also known as Compulsive Buying Disorder (CBD), oniomania, or shopping addiction is a persistent and habitual behavior, whereby individuals develop an irresistible compulsion to purchase items whether they need them or not and whether they can afford or not. This has become the subject of growing interest among researchers, clinicians and policymakers, especially as the spread of consumer credit and online payment systems has methodically removed transactional friction (Moon & Attiq, 2018). The introduction of Buy Now, Pay Later (BNPL) options has added to the debate on the topic of the practice, particularly in developing economies such as Pakistan, where proper credit access was traditionally low. Therefore, compulsive buying should be analyzed to comprehend the interactions between modern payment innovations and consumer psychology to transform spending and eventually affect financial health (Farooq, Addicted to the fake: Coaction theory and the psychology behind counterfeit consumption., 2025).

Compulsive buying is a habitual behavior pattern and is a compulsory disorderly tendency of buying goods that cannot be controlled, usually regardless of whether it is necessary or not, or whether it can affect finances or not. It is more of a behavior driven by internal psychological demands, i.e. emotional control or short-term alleviation of negative emotion, than a functional consumption. Previous studies have repeatedly associated compulsive buying with stressful sub-psyched states such as increased anxiety, depression, and low self-esteem, indicating that people can use buying as a response to some underlying emotional issues. Although compulsive buying has the temporary relief,

it causes severe personal, financial and social complications and leads to misery and inability to live normally in adulthood (Moon M. A., 2024). Consumer financial behavior is ever seldom consistent with the rational representations as outlined in the standard economic theory. Thaler (1985; 2004) proved that people arrange financial resources into particular mental accounts where they seem to treat money differently depending on the source of money; an example of this is the windfall money which is more easily spent than the earned income. Buy Now, Pay Later (BNPL) services are able to capitalize on this type of cognitive segmentation. The instant gratification of acquisition is separated by the immediate installment option of the purchase, which is separated by placing the pain of payment as a future commitment in the mind. This consumption/payment distinction, according to Prelec and Loewenstein (1998), is a powerful tool of spending guilt minimization. Moreover, recent studies by Chen and Wang (2023) show that frequent users do not always treat BNPL requirements as part of debt but perceive it as daily operational costs like utility or subscriptions. Thus, a PKR 80,000 accumulated debt does not seem to be a big lump sum, but a set of insignificant and minor line items. This mental reworking is fast taking place in Pakistan, which was a cash transaction market in the past. Consumers are even buying high-value products, including smartwatches, only because of their affordability monthly and not because of their cost. The customary psychological linkage of high cost and payment pain is also diminishing creating a regulatory and behavioral gap. Thus, Mental Accounting Theory can be used as a critical analysis tool to explain why a large stock of financial obligations is mounting up among many Pakistani consumers (young) who cannot psychologically recognize the sum of money as real money (Thompson, 2023).

The behavioral and psychological signs of people with obsessive or compulsive purchasing disorder are uniquely different and manifest unfavorable self-regulation and emotional reliance on buying. Such people are too obsessive with their shopping and buying choices behaviorally and spend too large a percentage of their time deliberating or taking part in buying habits, such as going to online stores and shopping malls. Shopping has become a main leisure activity, with loss of control, as people find it difficult to resist the urge to buy or are likely to purchase something impulsively or unknowingly. Frequent but failed efforts to minimize shopping habit are a typical incidence and the vice may continue without relent even amid deleterious effects, including economic burden. Most compulsive shoppers would still go shopping despite immense financial constraints, hide their purchases to their family members and would borrow funds using various sources to fuel their purchasing habits (CFPB., 2015).

H1: Compulsive buying behavior among Buy Now, Pay Later users has a significant negative impact

on financial well-being (economic welfare).

Payment Methods

In a course of five years, the Buy Now, Pay Later (BNPL) industry has not only developed into a widely used alternative financial tool globally but it has also emerged as a prominent tool in the financial industry. McKinsey (2023) projected the transaction volumes to go past 150 billion and the figure supports the fact that traditional models of credit are becoming obsolete rapidly. As opposed to traditional credit cards, which are typically linked to hefty interests and strict background verification, BNPL provides frictionless interest-free acquisition model, which is especially attractive to consumers aged below 35. This has radically changed the way impulse buying works; through the inclusion of smooth installment schemes, the merchants have been reporting an average order value rise of 20-30 percent and a 20-30 percent conversion rate rise. This growth is technically enabled through blistering fast mobile connections as well as algorithmic underwriting that is able to approve credit within a few seconds. This expansion, however, has led to regulatory intervention; regulatory authorities like the FCA in the UK and ASIC in Australia have taken steps to regulate BNPL providers in the same way that banks are regulated and impose heavy responsibility on their affordability testing and transparency requirements. Pakistan, by contrast, is at a pre-regulatory stage where the business model is based on aggressive user acquisition but this phase of unfettered operation is closing very swiftly as policy frameworks inevitably match up. In a case study, Lee and Chen (2023) observed the checkout behaviors and found that the rate of cart abandonment was high with a product being displayed at its retail or totally out of pocket price of 89,999. But in case of presenting the cost in four parts of 22,499 the perceived expensiveness decreased considerably; the participants tended to underestimate the overall cost and some of them remembered the price as costing between 60 and 70,000. This cognitive disengagement is also further amplified when the users have more than one active BNPL plan. Instead of summing the total liability that could amount to PKR 180,000 the consumer concentrates on the aspects that are smaller and less significant i.e. the monthly, smaller payments (e.g., PKR 40,000) thus hiding the real size of the debt. This is more pronounced in Pakistan. In their study, Ahmed et al. discovered that local consumers were willing to buy high-value products (i.e., an iPhone 15 at PKR 120,000) by relying on the affordability of the PKR 30,000 monthly payments only. Therefore, BNPL has not just made products seem cheaper, it has entirely changed the meaning of affordability so that a generation of consumers can buy what they would not purchase otherwise.The use of BNPL in Pakistan is a localized variant of the international one,

namely adapted to the environment where cash operations are predominant and credit cards are perceived as a technique of the privileged group. The demographic statistics show that there is a huge disparity in finances; among the population of about 220 million, almost 100 million adults are unbanked. Moreover, the credit card penetration rate is less than 2 thus the market has a major structural void than a gap. Therefore, BNPL services have not merely reinvented themselves in the market but have positioned themselves strategically to bridge this massive disconnect that provides easy access to credit to a large and previously underserved group of individuals (Rook, 1995)

H2: Buy Now, Pay Later (BNPL) has a significant positive effect on compulsive buying behavior compared to other payment methods.

H3: The reduction in perceived expensiveness caused by Buy Now, Pay Later (BNPL) significantly increases consumers' tendency toward compulsive buying.

Perceived Expensiveness

The perception of price by the consumers is seldom objective and is very vulnerable to cognitive biases. Expensiveness is not an expressed numerical measure but a subjective feeling that varies according to circumstances. As a result, the perceived cost of a certain amount, i.e. PKR 80,000, would vary considerably depending on the time of income and liquidity. One of the most crucial factors of such distortion is the system of payment. Indicatively, a lump-sum payment of PKR 18,000 will be resisted unlike reframing the same payment into PKR 1500 per month which is normally met with instant acceptance. When this occurs the brain pegs itself to the lesser figure and in effect it ignores the aggregate multiplier. This mental detachment is also influenced by the medium of exchange: whereas cash payment will cause the greatest pain of paying because of the actual handling of money, electronic payment will lessen this discomfort. BNPL services reduce this pain to an insignificant amount at the time of purchase, in essence pushing the psychological reality of the spending into the future until the installments are brought together. Behavioral intention is influenced by the three factors connecting: attitude towards behavior, subjective norms and perceived behavioral control. Applying this framework to the Pakistani BNPL market, one can state it as the explanation of the rapid adoption of the sector. As far as attitude is concerned, consumers are becoming more and more favorable towards BNPL as a very positive, free of charge, liquidity tool that is described as having zero-interest terms and immediate acceptance. The subjective norms are strongly supported through the avenues of social media in the large urban areas such as Lahore, Karachi, and Islamabad where a purchase of the high-end electronics on installments is the norm; effectively, not using this

resource is deemed a financial drawback. Lastly, perceived behavioral control is vulnerable to effects of optimism bias wherein users overestimate their ability to repay in future in many cases basing on unstable incomes such as freelancing and thus overconfidence. This is supported by research by Kumar et al. (2023): attitude and social pressure were found to be strong predictors of adoption, but perceived control is often an illusion, and collapses when users face the issue of having several schedules of collection at once. This disillusionment is especially perilous in Pakistan, where the fintech availability has surpassed financial literacy. With the current discourse around Buy Now, Pay Later (BNPL), much focus has been on commercial viability, the rate of adoption by merchants, and the overall increase in revenues, without much focus on how the concept has a vital role in the everyday life of the consumer. The available Western literature that mostly concerns the subject of Millennials in developed markets such as Sydney or London is not as relevant to the Pakistani situation. Most Pakistani BNPL users do not have any formal credit history, unlike Western consumers who are accustomed to credit card systems. As a result, such consumers undergo a deeper psychological change: they have to move immediately to the model of savings development, where it took months of capital investment to buy a phone to immediate notifications of the fact of pre-qualification of large amounts of money (e.g., PKR 200,000). With this demographic, this type of instant access to an unearned liquidity is often viewed as not a financial liability, but a lottery-winning (Lichtenstein, p. 1993)

H4: Buy Now Pay Later is perceived to be inexpensive as compared to other payment methods.
H5: Perceived expensiveness mediates the relationship between Buy Now, Pay Later and compulsive buying behavior.
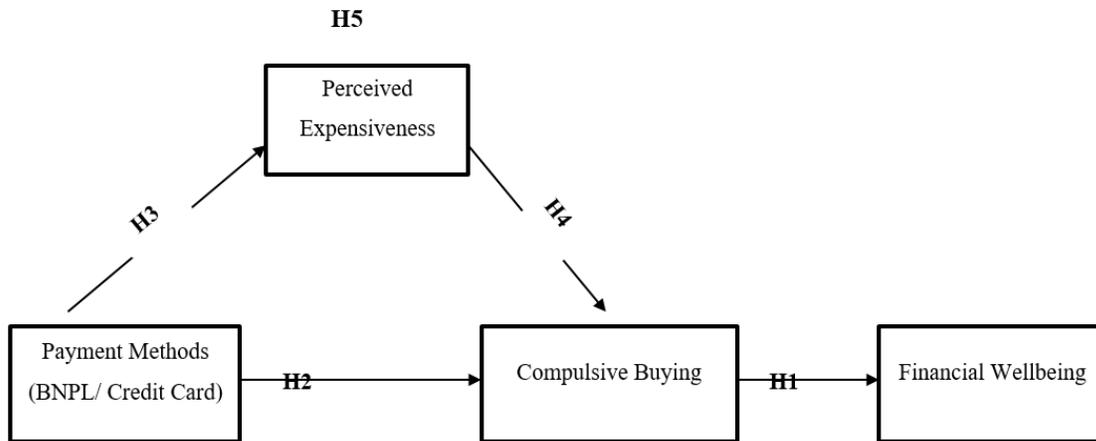
H5

Perceived
Expensiveness

H3

H4

Payment Methods
(BNPL/ Credit Card)

H2

Compulsive Buying

H1

Financial Wellbeing

Figure 1 Conceptual Model

Methodology

The research design that was used in this study was a quantitative, cross-sectional research design to test the hypotheses proposed in the study empirically. The participants of the sample were Pakistani adults (18 or older) who had used Buy Now, Pay Later (BNPL) at least once in the 6 months before the research. Since these services are digital in nature, data was concentrated in big cities such as Karachi, Lahore, Islamabad, Faisalabad and Multan with the largest rates of BNPL adoption. The strategy used to recruit participants was a non-probability sampling method that combines snowball and purposive sampling, as it is necessary to identify representatives of corresponding digital communities and social media. This research approach was a guarantee of direct access to the active users of such major platforms as QisstPay and SadaPay. Out of originally issued 450 questionnaires, 385 valid responses were retained in order to be used in analysis after a strict selection on completeness and data quality. (Lee, 2023).

Sampling Procedures

In order to empirically explore the behavioral and financial effects of the adoption of Buy Now, Pay Later (BNPL), this study adopted a quantitative and cross-sectional research design to focus on the new digital credit market in Pakistan. It was a target group of adult people over 18 years old who used BNPL services at least once in the six months before the study. Since the use of fintech is majorly concentrated in major towns, the study targeted the residents of the major towns, such as Karachi, Lahore, Islamabad, Faisalabad and Multan. In order to reach this particular demographic successfully, the non-probability

sampling strategy was applied combining purposive and snowball methods to recruit the participants of the corresponding digital communities and social media into the sample. The minimum size of the sample was calculated applying Cochran formula that required 384 respondents in order to guarantee 95 percent confidence level with 5 percent percentage of error. Data was collected between the months of November and December 2025 and this was a period of time when consumer behavior was captured at an opportune time when there was a lot of consumer spending as the wedding season had ended and it was also at the end of the year and the sales were high. The total of 450 questionnaires was sent through different avenues like Peer References, WhatsApp and Instagram; after undergoing stringent screening measures of eliminating incomplete or invalid entries, 385 valid responses were maintained to conduct analysis, which made the response rate to be 85.6 (Chen, 2023).

Measures

Instrumentation and Measures A version of the measurement instrument is produced as a continuous variable to be recorded. The data collection tool included a guided 42-item questionnaire that was aimed at eliciting multidimensional factors of BNPL use and the psychological implications thereof. The tool was broken into five different sections, in order to cover the study variables comprehensively. The demographic profiles and the current debt burden were collected in Section A based on the number of active BNPL applications per user. Section B assessed patterns of usage, frequency, and preference of the provider and used items that were formed by analyzing the market of the most popular local services, including QisstPay and SadaPay. Section C was used to assess changes in behavior, using a 9-item adaptation of the Rook and Fisher (1995) Impulsive Buying Scale, adapted specifically to BNPL triggers, e.g. the disposition to buy the products as soon as installment options are available. Section D was an evaluation of Perceived Expensiveness, which evaluated how installment framing changes the perception of the consumer on the affordability and the value of the product. Lastly, Section E assessed Financial Well-being with the standardized 10-item CFPB (2015) scale with three context-specific items that covered local financial stressors including the prioritization of installments over utility bills and the secrecy regarding debts among family members. A pilot study of 30 respondents was conducted on the instrument to determine the reliability of the instrument, and the instrument returned a strong value of Cronbach alpha coefficient ranging between 0.812 and 0.934 to establish high levels of internal consistency between constructs.

Data collection procedure

The demographic characteristic of 385 responses that were considered as valid indicates that the sample is relatively equalized in terms of gender (54% men, 46% women) and, at the same time, is mainly composed of young people (77% of the participants belonged to the age group of 18-35 years old). Such age pattern can be related to the tendencies in the world at large since younger age groups are the most powerful users of digital credit solutions. The education level of the sample is also high, 68 percent of the participants have a bachelor degree or higher, which implies that the adoption of BNPL is closely correlated with digital literacy. On the economic front, the highest percentage of the respondents (45) indicated their monthly income ranging between PKR 50,000 and 100,000 with the highest share of employment being in the private sector with 38%. The usage patterns are then analyzed, and QisstPay, and SadaPay are found to be the market leaders (41% and 28% respectively). Most of the users (67%) use these services 1 to 3 times a month with an average transaction value of PKR 5,000 to 15, 000. Most importantly, the information reveals that there is a strong tendency towards debt stacking, as 58 per cent of the users note that they are on active installment contracts with two or more providers at the same time. They spend very discretionary categories as opposed to necessity needs with Electronics (34%), Fashion (28%), and Home Appliances (21) being the top in purchase mix (Netemeyer, 2018).

Data Analysis Procedure

The statistical analysis was done through a strong fatigue and two-fold differentiation with the help of IBM SPSS and AMOS. Confirmatory Factor Analysis. (CFA) was initially performed to determine construct validity by measuring factor loadings and determined that the measurement model had good construct validity in terms of Average Variance Extracted (AVE) and Composite Reliability (CR) in determining convergent and discriminant validity respectively. After that, the Structural Equation Modeling (SEM) was used to test the proposed causal paths and mediation effects and the Hayes PROCESS macro (Model 1) was applied specifically to investigate the moderating role of financial literacy in compulsive buying behavior. The data met all the required statistical conditions, such as normality and the lack of multicollinearity or outliers; additionally, the single-factor test by Harman proved that the common method bias was insignificant (variance $< 40\%$). The ethical compliance was marketed in respect of the requirements of the Higher Education Commission (HEC) of Pakistan and endorsed by the university Institutional Review Board (IRB). Informed consent was received by means of bi-lingual forms and privacy of the participants was ensured by complete anonymity without any personal identifiers and data were kept in encrypted and restricted access repository.

Results and Analysis

Users are advised to turn on the feature called display total payable, in order to circumvent concealment features. There should be a strict policy one that purchases above PKR 15,000 be required to go through a compulsory 24 hrs cooling off period and that apps used are reduced to one by uninstalling unnecessary platforms. The providers are required to voluntarily convert to responsible lending models within 90 days in order to avoid aggressive regulatory intervention. Some of the measures that are important are to reorganize the user interfaces to show the Total Amount Payable in font size larger and bolder than the installment amount. The lending criteria are to be tightened to allow active plans not more than two per CNIC and ensure that transaction above PKR 25,000 has a cooling-off period of 48 hours. Moreover, the accounts should be automatically frozen after defaulting on a single payment to avoid the problem of late-fee farming. Placing conspicuous warnings at the checkout like You already hold PKR [X] in active installments will play an important ethical checkrail. The inability to self-regulate will be subject to a draconian state regulation. Immediate systemic reforms need to be introduced by regulators to prevent a generational debt crisis. An operational Central BNPL Authority is required now, and all providers must report individual installments within 24 hours; otherwise they will have their license revoked. The Total Cost of Credit should be in written with significant penalties (e.g., PKR 0.5 Million) in the event of breach. The use of advertisements like free installments, nonexistent cost etc. should be banned in the country. Also, the access to the platform should be conditional by making a mandatory financial literacy course, where a user must pass a quiz on the total costs and penalties. Lastly, regulators need to inspect revenue on late fees; when it is higher than 15 percent of the total revenue, state takeover should be dealt with immediately to destroy predatory business models. The general idea should not be lost; installment-based consumption is just borrowing future income to spend it now on immediate satisfaction (Ajzen, 1991).

Before data analysis, during data screening, we treated missing values ($\geq 10\%$), aberrant values, univariate ($z > \pm3$), and multivariate (Mahalanobis d^2 at $p < 0.05$) outliers with the mode substitution method 4.3. Data collection procedure We used the mall intercept method to collect the self-administered survey data from young shopping mall consumers as they are users of BNPL services from Multan. Normality was not an issue since skewness (±1) and kurtosis (±3) values were well within the specified threshold. The variance inflation factor (VIF 0.1) values between the independent constructs confirm no issue of multicollinearity. Self-reported measures, specifically for dark consumer behaviors such as compulsive buying, are vulnerable to common method biasness (CMB).

Therefore, we applied procedural and analytical remedial measures to diagnose and account for such potential biases and concluded that the data does not suffer from CMB.

Structural equation modeling (SEM)

This study adopts two-step procedure for structural equation modeling. Initially, we assessed the confirmatory factor analysis (CFA for reliability and validity of the constructs) followed by testing the proposed hypothesis in the structural model. The results corroborate that payment depreciation is a process of mass cognitive distortion, according to which installment framing statistically reduces price sensitivity among people. Therefore, the study presents a comprehensive, integrated structural equation modeling that empirically follows the cause-effect sequence of payment method to price illusion, impulsive buying, and the end-stage, financial distress in a loop-loop that has never been calculated in the emerging markets hitherto, through Structural Equation Modeling (SEM). More importantly, perceived expensiveness is not a fringe variable, but the main mediator that contributes to impulse consumption, as defined by the analysis. In addition, by establishing the boundary conditions, i.e., financial literacy, age, and income, the study identifies the users who can use BNPL in a sustainable manner and those, who tend to become financially insolvent, which presents a critical theoretical framework that further financial education can rely on. In a bid to address the psychological pitfalls of Buy Now, Pay Later (BNPL) services, consumers should resort to the strategy of radical transparency and consolidation. It is advisable to consolidate the total outstanding amount in all active apps into one screen and look at it every day to drive home the truth about the debt amount.

Confirmatory Factor Analysis

This detailed study on the meaning of Buy Now, Pay Later (BNPL) services to Pakistani consumers mentions that there are severe implications on the purchasing patterns and financial security. The empirical evidence shows that the use of BNPL is a dual process phenomenon, which triggers compulsive purchasing desires and, at the same time, makes goods appear less expensive, which leads to excessive consumption. Importantly, as it is analyzed, there is a clear negative correlation between the use of BNPL and financial well-being, which is especially strong in the group of consumers with less financial literacy and income. All hypotheses of the study are confirmed by confirming that the use of BNPL has a strong positive effect on compulsive buying (0.48), a significant negative effect on the perception of expensiveness (0.41), and a negative effect on the overall financial well-being

(0.32), which is moderate and mediated by financial literacy. These findings have created a subtle outlook of the BNPL industry, not rejecting its contribution to the flexibility of payments and access to credit, but pointing at its massive ability to undermine the financial well-being of consumers (Kumar, 2023). The current study essentially re-considers the conventional literature on consumer behavior by putting this to context in the environment of instant digital credit. It offers the initial empirical confirmation rapidly changing market that is moving to digital forms, showing that the removal of the pain of instant payments is a significant contributor to the psychological unemployment of consumption and spending. The results of the Confirmatory Factor Analysis (CFA) demonstrate that the model of measurement has a reasonable level of reliability and convergent validity in all the latent constructs. In particular, the BNPL Usage construct had good psychometric qualities, with standardized factor loadings between 0.75 and 0.81, Composite Reliability (CR) of 0.88 and Average Variance Extracted (AVE) of 0.60, all which are above-average academic scores. Compulsive Buying construct displayed good internal consistency with an item loading ranging between 0.79 and 0.83, CR of 0.90, and AVE value of 0.64 thus developing a strong construct validity. Likewise, Perceived Expensiveness had the acceptance requirements; it had standardized loadings ranging between 0.71 and 0.80, CR of 0.86, and AVE of 0.56. Financial Well-being also had sufficient convergent validity with the factor loadings being 0.73 to 0.81, CR of 0.87 and AVE of 0.58. Lastly, Financial Literacy had good scores, as its loadings ranged between 0.76 and 0.82, CR= 0.89 and AVE=0.62. Taken together, these results indicate that all the constructs are much better than the standard of reliability and validity, which proves the appropriateness of the measurement model to be used in further structural analysis. There is good discriminant validity between the variables of the study in terms of the inter-construct correlation as the square roots of the Average Variance Extracted (written on the diagonal) is larger than the inter-construct correlations. The use of BNPL is positively but insignificantly associated with compulsive buying (r = 0.61), implying that the greater the dependence on BNPL services, the more the behavior of purchasing compulsively. By comparison, the use of BNPL has a strong negative correlation with perceived expensiveness (r = -0.58), financial well-being (r = -0.49), and financial literacy (r = -0.31), which implies that frequent BNPL users are less price-sensitive, have lower financial well-being, and have lower financial literacy. The negative correlation between perceived expensiveness (r = -0.55), financial well-being (r = -0.46) and financial literacy (r = -0.39) with compulsive buying also supports the difference between impulsive consumption and poor financial performance. Perceived expensiveness has a positive corresponding relationship with financial well-being (r = 0.44) and financial literacy (r = 0.35), and financial well-being is positively interrelated with

financial literacy as well (r = 0.41). Altogether, the findings confirm the discriminant validity and demonstrate the significance of the relationships in accordance with the theoretical idea of consumer behavior caused by BNPL (Gourville, 1998).

Confirmatory Factor Analysis Results

Construct	Item	Std. Loading	CR	AVE
BNPL Usage	BNPL1	0.78	0.88	0.60
	BNPL2	0.81		
	BNPL3	0.75		
Compulsive Buying	CB1	0.83	0.90	0.64
	CB2	0.79		
	CB3	0.82		
Perceived Expensiveness	PE1	0.80	0.86	0.56
	PE2	0.74		
	PE3	0.71		
Financial Well-being	FW1	0.77	0.87	0.58
	FW2	0.81		
	FW3	0.73		
Financial Literacy	FL1	0.82	0.89	0.62
	FL2	0.78		
	FL3	0.76		

Structural model and hypothesis testing

According to the structural model and hypothesis testing , the proposed model has been able to fit the data well and to a satisfactory level. The degree of freedom to chi-square (2.41) is smaller than the recommended value of 3.00 indicating a good fit of the model. The Comparative Fit Index (CFI = 0.94) and Tucker Lewis Index (TLI = 0.93) both have above the acceptable range of 0.90, which means strong incremental fit. In the same manner, Goodness-of-Fit Index (GPI = 0.91) is above the acceptable standard, which also confirms the sufficientness of the model. Moreover, the Root Mean Square Error of Approximation (RMSEA = 0.061) does not exceed the upper limit of 0.08 which is considered to be a good fit of the model to the population covariance matrix. Last but not least, the Standardized Root Mean Square Residual (SRMR = 0.047) is close to the acceptable limit, which proves the fact that the residuals are insignificant. Taken together these indices give a very good indication that the measurement/model explains the observed data. The results of the hypothesis testing ensure good empirical evidence to the relationships proposed in the model. In the results, it can be seen that Buy Now, Pay Later (BNPL) affects compulsive buying behavior in a substantial positive way (0.48, p <.001), which confirms H1. Conversely, BNPL presents a substantial negative correlation with the perceived expensiveness (= -0.41, p =.001), which means that the more people use BNPL, the lower their product expensiveness perception is, thereby confirming H2. Also, BNPL is discovered to affect financial well-being negatively (β = -0.32, p =. 001) to support H3. The moderator of financial literacy on the association between BNPL and compulsive buying is also important (p < .01) and this proves that financial literacy does vary the strength of the relationship between BNPL and compulsive buying and this in turn supports H4. Lastly, the mediation analysis proves that perceived expensiveness is also a significant mediator of the connection between BNPL and compulsive buying (p < .01) and supports H5. All in all, these findings confirm the validity of each of the hypotheses and point to both direct and indirect impacts of BNPL on the consumer behavior.

Hypothesis	Path	β (Standardized)	p-value	Result
H1	BNPL → Compulsive Buying	**0.48**	< .001	Supported
H2	BNPL → Perceived Expensiveness	**–0.41**	.001	Supported
H3	BNPL → Financial Well-being	**–0.32**	.001	Supported
H4	BNPL × Financial Literacy → Compulsive Buying	—	< .01	Supported
H5	BNPL → Perceived Expensiveness → Compulsive Buying	—	< .01	Supported

Mediation Analysis

The mediation analysis findings suggest that the impact of Buy Now, Pay Later (BNPL) on impulsive buying (IB) is strong and statistically significant. This effect of BNPL on CB is positive and significant (0.48) , 95 percent index = 0.36 to 0.58), which proves that BNPL directly enhances impulsive buying behavior. Moreover, the indirect impact of BNPL on IB via perceived expensiveness (PE) cannot be ignored (95% CI = 0.14 to 0.29), which proves that PE is one of the reasons that explain this correlation. The overall effect of BNPL on CB is also significant (= 0.69), which implies that there are both direct and indirect pathways which play an important role in the overall relationship. Combined, these results indicate that there is a partial mediation of the effect, meaning that perceived expensiveness is an important mediating variable, but BNPL has a direct effect on impulsive buying.

Effect	β	Lower CI	Upper CI	Result
Direct (BNPL → IB)	0.48	0.36	0.58	Significant
Indirect (via PE)	0.21	0.14	0.29	Significant
Total Effect	0.69			Partial Mediation

Implications

Theoretical Implications

The present research applies theoretical frameworks to the urban Pakistani context, and it proves to be useful even in a situation when the product cost and income levels significantly differ. The strong statistical evidence of Hypothesis 1 8 = 0.48, p =.001) confirms the fact that BNPL use is one of the most notable contributors to compulsive buying behavior2. Through a successful elimination of the pain of paying, the BNPL eradicates the psychological resistance that serves as a form of control that usually possesses spending. This is a radical change in behavioral pattern and not a gradual evolution in an economy that is historically cash-centric. Moreover, Hypothesis (= -0.41, p =.001) results confirm the existence of the pennies-a-day effect in reality when Gourville indicates that the price-sensitive consumers are desensitized to price when it is disaggregated into installments5. Therefore, BNPL does not simply make products seem cheaper, but it essentially reinvents the notion of affordability in a generation of people7. More importantly, the mediation analysis observes that perceived expensiveness is the key means of transmission.

Practical Implications

The statistical result indicates that there is a strong negative correlation between the intensity of BNPLs use and financial welfare (a = -0.32, p =. 001), which shows that an extra installment round clearly reduces the financial well-being of the consumer. This regression line of trend reveals the risky aspect of debt stacking where users with running plans in various providers like QisstPay, SadaPay and Bank Alfalah are usually caught in a liquidity trap once repayment timetables of the various plans collide2. Nevertheless, the analysis has revealed an essential protective variable: financial literacy plays an important role in mediating the correlation between BNPL use and compulsive purchase (H4 accepted, $p < 0.01). Those who had better financial abilities and could compute aggregate costs and see the implications of penalty rates were much less likely to exhibit higher impulse removal rates even after being exposed to the same marketing stimuli4. As a result, financial literacy is an important cushion to financial distress; sensible solutions to mitigate it are the consolidation of online credit applications and the rigid appraisal of installment-based purchases against their short-term cash worth to avoid eventual bankruptcy. The results of the 385 respondents show that 58% of users are active participants in the process of debt stacking in multiple platforms which proves that the industry is becoming more and more reliant on late fees and unsustainable consumer leverage to grow. The direction poses an imminent regulatory and reputational threat; the more data supporting the adverse effect of these products on financial health can be leaked, the more the chances of brutal action by the State Bank of Pakistan

become high. A responsible lending framework is the strategic differentiator that providers should implement in order to be able to secure long-term market viability and preempt regulatory sanctions. Suggested self-regulatory interventions are: showing the total amount that is payable as opposed to installment amounts to increase transparency; having a few running plans at the same time; having a cooling-off period of one transaction that is more than PKR 25,000; automatic freezes of an account on more than one default. Moreover, by incorporating dynamic "Financial Health Scores" into applications, over-leveraging can be discouraged and well-organized providers can become the long term leaders in a market where inevitable consolidation is inevitable. The empirical data shows beyond a doubt that the unregulated expansion of BNPL services is already actively undermining the financial security of consumers, and the consequences of it are not only possible but also present. The chronic laxation of regulation risks inculcating harmful financial practices into a generation of young Pakistani potentially normalising debt taking as a major mode of consumption and financial socialisation. Therefore, it is of paramount significance that policy makers should take the initiative to regulate it by setting up a strong regulation system immediately. Preemptive action will reduce the danger of systemic insolvency, and avoid the necessity of reactionary, overreacting practice that frequently follows the inescapable crisis in the popular imagination or the financial distress in general.

Conclusion

The explosion of Buy Now, Pay Later (BNPL) services in Pakistan is a paradigm shift in the consumer credit market with far-reaching consequences to the personal economic wellbeing of individuals and the overall economic welfare in the general society. Although BNPL has a hard-to-argue-with usefulness in the context of improved liquidity and wider payment options, the tension which has been identified in this study is that the current marketing policies of the industry and psychological architecture are supposed to capitalize on the existence of cognitive biases, which are disproportionately likely to force vulnerable demographics into the danger of insolvency. The empirical evidence contained in this post is a call to action by the regulators, stakeholders in the industry, and consumer advocacy groups to undertake action with the highest urgency possible. Pakistan is at a critical point in its digital transformation, and the risk is to strike the right balance between the positive agenda of financial innovation and strictly protect the interests of consumers. However, the BNPL development in Pakistan be it that it becomes an authentic tool of financial inclusion or an engine of systemic exclusion remains to be determined by the rapid adoption of adaptive regulations, full-scale financial literacy programs and responsible lending. The current

research adds to the missing discussion on this topic as it records the psychological and financial effects of installment-based consumption that are present nowadays; nevertheless, the concluding chapter of this story has not been written yet. There is no action that can be taken to help overcome the cognitive biases and traps of debt that have been identified; otherwise the costs of inaction will overwhelm the hope of digital credit. There is an urgent need to ensure that the stakeholders take necessary action to ensure such a pennies-a-day effect does not cost the financial future of the next generation irreversibly.

Future Research

Although the study is critical in the empirical way it attempts to find out the effect of Buy Now, Pay Later (BNPL) services in Pakistan, a number of limitations make the study circumspect in extrapolating the results. To begin with, the study was cross-sectional, and thus, although it provides effective association evidence at a given period of time, it offers a static picture of a dynamic financial phenomenon. It measures the instantaneous psychological and behavioral associations but can not establish long-term causality and the path of the accumulation of debts. Second, the sampling frame was narrowed down to large urban and semi-urban centers (e.g., Karachi, Lahore, Islamabad) with the largest digital uptake. This geographic discrimination locks out the huge rural population who is, though not penetrated at the moment, at the frontier of fintech growth. With the extension of BNPL infrastructure to Tier-2 and Tier-3 cities, there is an uncharted and potentially unstable interface of digital credit and less financially literate populations. Lastly, the use of self-reported data creates the ability of inherent biases such as social desirability and recall bias. The respondents can be unaware of reporting their actual debt liabilities or over-rate their financial capability, which is a mismatch between perceived and actual solvency.

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