Buy Now Pay Later vs. Credit Cards: Competition or Coexistence?

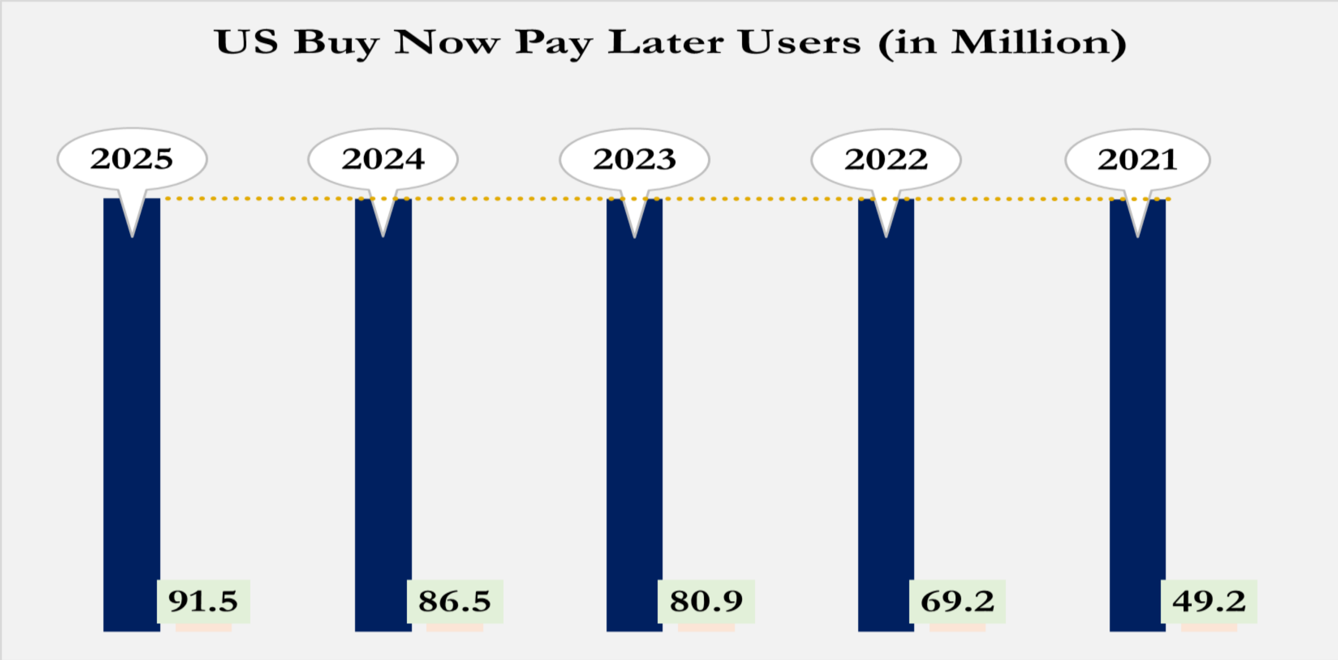
Rise of BPNL

Buy Now Pay Later emerged in the late 2010s and exploded into mainstream during the Covid-19 pandemic, when online shopping surged and consumers sought more flexible and convenient ways to pay. This short-term financing that allows consumers to split their purchases into typically interest-free installments offered an exciting alternative to traditional credit cards. Why are BNPL loans so appealing to consumers, especially Millennials and Gen Z? It's because they offer affordable, accessible, and convenient forms of credit. According to research, Millennials and Gen Z make up 75% of BNPL customers.

Buy Now Pay Later fulfilled the needs of people who either did not want to use credit cards or lacked sufficient available credit - it gained popularity, particularly in regions with low credit card penetration and strict eligibility criteria. The business model of this flexible payment model varies from that of credit cards. Unlike credit card companies that earn around 80% of their profits from interest charges (late and other fees constitute the remaining 20%), it relies primarily on fees charged to merchants.

Global BNPL Adoption

Buy Now Pay Later adoption has been witnessing consistent global growth, driven by younger, digital-native consumers, e-commerce integration, and demand for flexible payments. According to The Paypers 'Buy Now Pay Later Report 2025', the BNPL market is projected to reach approximately $560 billion by 2025-end. North America represents around 38.5% of the global BNPL market, while Europe is also witnessing strong BNPL adoption (around 32% of global BNPL adoption), across countries like Germany, the UK, France, and Sweden, with Klarna, Alma, and Scalapay having strong footholds. It is also gaining ground in Latin America (12%) with MercadoPago leading the charge. Asia constitutes around 23% of the global BNPL market, with Alipay, JD Baitiao, and NP Atobarai prominent in China and Japan. Atome is growing in popularity in the Southeast Asia region, while Tamara and Tabby are expanding in the Middle East. This point-of-sale financing is also witnessing steady momentum in the Africa region with PayJustNow, Lipa Later, and CredPal, dominating the digital finance landscape.



U.S. Market Overview

The U.S. represents around 26% of the global Buy Now Pay Later market. Today, around 86.5 million Americans use BNPL services, and $91.5 million Americans are expected to use these services by 2025-end. According to a 2025 LendingTree survey, around half of Americans have used a BNPL service, at least once, including 11% that have used the service at least six times. PayPal, AfterPay, and Klarna represent around 70% market share in the US. This pay-over-time boom has challenged traditional banks and lenders like Chase, Citi, American Express, Capital One, and Bank of America to rejig their strategies - they rolled out flexible installment plans, 'pay-over-time' options, and promotional financing directly on their cards providing consumers the same convenience offered by BNPL providers.

Buy Now Pay Later vs Credit Card – Co-existence or Competition?

With new Buy Now Pay Later players born every month, the market is buzzing with one obvious question: Will Buy Now Pay Later pose an existence threat to traditional credit cards? Undeniably, it is here to stay, but it is too early to assume they are engaging in a zero-sum battle with credit cards. The consumer credit landscape is reshaping, but there isn't enough evidence yet to suggest that they are posing an existential threat to traditional credit cards in the US. Credit cards remain deeply entrenched in American consumer behavior, with 80% of Americans owning at least one credit card. The U.S. credit card market is a reward-rich one for consumers that have good credit scores, strong incomes, and large credit limits.

Buy Now Pay Later providers are confident they will become more than just an alternative to credit cards. "The enemy or the competitor is the credit cards, not each other," Affirm CEO Max Levchin stated in a media interview. Sebastian Siemiatkowski, CEO and Co-Founder, Klarna - the oldest BNPL provider - sounded bullish about its potential for scale and profitability. "There's a huge opportunity to disrupt the credit card industry in the US," he said in a recent interview.

Studies reveal Buy Now Pay Later users often maintain higher credit card utilization (60 to 66%), compared to 34% for non-BNPL users. This indicates an interesting consumer trend – consumers are using both these payment modes concurrently. According to a study, 54% of Gen Z used these short-term loans while 50% of credit cards used them during the 2024 holiday season. This underscores one thing: BNPL is fast emerging as a complementary tool rather than a substitute for credit cards.

Regulatory Scrutiny

Buy Now Pay Later providers are feeling the heat from regulators, much like traditional credit card companies. This short-term financing was previously outside the scope of the Truth in Lending Act and is now brought under TILA, following an interpretive rule issued by the Consumer Financial Protection Bureau in May 2024. The onus is now on

BNPL players to disclose fees, terms, and repayment conditions, thus raising the bar for transparency and consumer protection. Subsequently, in June 2025, FICO announced including BNPL loans in credit reports. So, what does it mean for the BNPL industry? Consumers can build credit history through responsible use of BNPL, but missed payments may hurt their credit scores. This shift pushes BNPL further into the regulated, mainstream credit ecosystem.

There's a growing concern among regulators about consumers overextending themselves financially - taking on more debt than they can actually manage since it is easy to borrow from multiple BNPL platforms that do not share information with each other. This led to repayment challenges. For instance, Klarna reported a 17% rise in credit losses in Q1 2025, highlighting persistent concerns around borrower stability. Similarly, credit cards have contributed to U.S. consumer debt reaching $1.2 trillion.

On top of that, regulators aren't happy that BNPL providers are reluctant to share payment data with credit bureaus - they are withholding customer data until they are assured their customers won't be unfairly penalized. And that is not making the job of credit bureaus more challenging – they are also struggling to incorporate BNPL data fairly so they can identify financial distress without unfairly penalizing those who use BNPL responsibly while still accurately assessing risk.

Conclusion

Buy Now Pay Later would continue to appeal to Millennials and Gen Z and its popularity is unlike to decline in the future. Affirm CEO Michael Linford puts things in perspective. "There is so much consumer credit consumption in the United States today. We view all that as a chance for us to offer better, honest financial products."

BNPL is unlikely to replace credit cards as the dominant payment method. With many consumers using BNPL as well as credit cards, it's clear that BNPL complements, rather than competes with traditional credit. While there is ongoing debate whether Buy Now Pay Later is a standalone business or simply a product for larger financial services firms, industry consensus is shifting toward the view that BNPL is unlikely to be successful as a standalone business in the hyper-competitive marketplace.