Seriat Ekonomisi, Vol 03, no. 01 (2026): 1-13
Publisher: Yayasan Dermawan Cendikiawan Bersatu
E-ISSN: 3047-6313

Islamic Financial Risk Analysis of Buy Now Pay Later (BNPL) Services in the Digital Economy

Batsnah Labiqa[1], Nur Mufida[2], Alvira[3]
[1] Universiti Kebangsaan Malaysia, Malaysia
[2,3] STAI Al-Falah Banjarbaru, Indonesia

Abstract: The rapid growth of financial technology (fintech) has transformed modern financial systems, particularly through the emergence of the Buy Now Pay Later (BNPL) model as a popular digital financing service. BNPL provides consumers with convenience and flexibility by enabling installment-based purchases without traditional credit cards. However, the increasing use of BNPL services has raised concerns regarding debt accumulation, impulsive buying behavior, financial instability, and ethical issues, especially from the perspective of Islamic Finance. This research aims to analyze the Islamic financial risks associated with BNPL systems, identify Sharia compliance issues, examine consumer vulnerability patterns, and formulate recommendations for Sharia-compliant BNPL innovation. This study employs a qualitative descriptive method using a library research approach. Data were collected from scientific journals, books, fintech reports, regulations, and previous studies published within the last ten years. The data were analyzed using qualitative content analysis by comparing BNPL practices with Islamic economic principles, including the prohibition of riba (interest), gharar (uncertainty), excessive debt, and unethical financial behavior. The study also applies the framework of Maqasid al-Shariah to evaluate the compatibility of BNPL systems with Islamic financial objectives. The findings reveal that many conventional BNPL systems contain interest-like charges, unclear contractual agreements, excessive consumerism, and exploitative financing practices that potentially conflict with Islamic principles. The study also identifies consumer vulnerabilities such as impulsive buying, low financial literacy, over-indebtedness, emotional stress, and financial dependency. This research concludes that Sharia-compliant BNPL systems can be developed through transparent contracts, ethical financing mechanisms, strong Sharia governance, and enhanced consumer financial literacy.

Research Highlights:

- This research analyzes the Islamic financial risks associated with the Buy Now Pay Later (BNPL) system within modern digital financial ecosystems.
- The study identifies major Sharia-related issues in BNPL practices, including potential elements of riba, gharar, excessive debt, and unethical financing mechanisms.
- The research reveals consumer vulnerability patterns such as impulsive buying behavior, low financial literacy, over-indebtedness, emotional stress, and financial dependency among BNPL users.
- The study evaluates the compatibility of BNPL systems with Maqasid al-Shariah and broader principles of Islamic Finance.
- The research proposes potential solutions for Sharia-compliant BNPL innovation through transparent contracts, ethical financing

Article history
Submitted 29-01-2026
Revised 13-02-2026
Accepted 23-03-2026

Keywords
Buy Now Pay Later;
Islamic Finance;
Financial Risk;
Islamic Fintech;
Sharia Compliance.

Corresponding Author:
Name: Batsnah Labiqa
Email: batsnahlabiqa@gmail.com

models, strong Sharia governance, responsible risk assessment, and consumer protection frameworks.

INTRODUCTION

The rapid advancement of digital technology has significantly transformed the global financial industry, particularly through the emergence of financial technology (fintech) services that provide innovative, efficient, and accessible financial solutions. Digital finance has become increasingly integrated into everyday economic activities, enabling consumers to conduct transactions, obtain financing, and manage financial services through online platforms(Pazarbasioglu et al., 2020). One of the most rapidly growing fintech innovations is the Buy Now Pay Later (BNPL) system, a payment method that allows consumers to purchase products or services immediately and pay in installments over a specified period. The BNPL model has gained substantial popularity among millennials and Generation Z due to its convenience, flexibility, simple registration process, and accessibility without requiring traditional credit cards. The expansion of e-commerce platforms and digital marketplaces has further accelerated the widespread adoption of BNPL services in many countries around the world.

The attractiveness of BNPL systems lies in their ability to provide instant purchasing power with minimal procedural barriers. Consumers can easily divide payments into smaller installments, making products and services appear more affordable in the short term(Littwin, 2007). However, despite these advantages, the rapid growth of BNPL services has also generated serious concerns regarding debt accumulation, excessive consumption behavior, and low levels of financial literacy among users. Many consumers tend to underestimate the financial obligations associated with deferred payment systems, leading to increased risks of over-indebtedness and financial instability. In some cases, users continuously utilize multiple BNPL platforms simultaneously without fully understanding their repayment capacities, which may eventually create long-term financial burdens. This condition raises concerns about the sustainability and ethical implications of digital consumer financing systems

From the perspective of Islamic finance, the emergence of BNPL systems introduces important debates regarding the compatibility of digital lending practices with Sharia principles. Islamic finance emphasizes ethical financial transactions based on fairness, transparency, accountability, and mutual benefit while prohibiting elements such as riba (interest or usury), gharar (uncertainty), and maysir (speculative practices)(Nienhaus, 2011). Some BNPL schemes impose late payment penalties, hidden charges, or additional fees that may resemble interest-based transactions prohibited in Islamic teachings. Furthermore, unclear contractual mechanisms and aggressive marketing strategies may encourage exploitative consumer behavior and excessive materialism, which contradict the objectives of Maqasid al-Shariah. As a result, many Muslim consumers and Islamic scholars have expressed concerns regarding whether BNPL systems truly comply with the ethical foundations of Islamic Finance.

The development of fintech services in Muslim-majority countries has further increased the urgency of establishing Sharia-compliant digital financial systems(Glavina et al., 2021). As the Muslim population becomes more technologically connected, there is growing demand for financial products that align with Islamic values and avoid prohibited financial elements. Islamic fintech has emerged as an alternative approach aimed at integrating modern financial innovation with Sharia principles. Nevertheless, many existing BNPL systems still operate within conventional financial frameworks that prioritize profitability rather than ethical financial responsibility and social welfare. Public concerns regarding riba, gharar, and consumer exploitation continue to intensify, especially as some BNPL providers lack transparency regarding fees, repayment structures, and financial risks. Consequently, there is a strong need for deeper academic analysis regarding the Islamic financial risks associated with BNPL systems and their implications for Muslim consumers.

Research on the Buy Now Pay Later (BNPL) system and its relationship with Islamic finance has significantly increased in recent years due to the rapid expansion of digital financial technology and changing consumer behavior. Katterbauer et al. (2023) conducted a study titled "AI Driven Islamic Buy Now Pay Later (BNPL) – A Legal Analysis." The study examined the legal and Sharia aspects of BNPL schemes within Islamic finance. The authors argued that BNPL systems can potentially be adapted into Sharia-compliant financing mechanisms through contracts such as murabaha, provided that interest-based elements and unethical practices are avoided. However, the study also highlighted significant concerns regarding transparency, contractual fairness, and consumer protection in digital financing systems.

Agustin, Nasya, and Candy (2025) analyzed the relationship between mindfulness, impulsive buying behavior, and perceived risk in BNPL usage among mature generations in Indonesia. Their findings showed that BNPL usage contributes to impulsive consumption patterns and may negatively affect financial well-being when consumers lack adequate financial literacy and self-control. The research emphasized the importance of perceived financial risk in influencing responsible BNPL usage.

Aulia and Kurniawati (2025), in their study "The Validity of the Sale and Purchase Contract with Shopee PayLater as Financial Technology in Islamic Law," investigated the legality of BNPL contracts from the perspective of Islamic law. The research concluded that certain BNPL mechanisms may violate Islamic principles if they contain additional charges resembling riba or unclear contractual terms that create gharar. The study stressed the importance of transparent agreements and Sharia supervision in fintech operations.

Hassan, Mohd Zain, Ghazali, and Mansor (2025) proposed a conceptual framework for reconstructing BNPL systems through the perspective of Maqasid al-Shariah. Their research emphasized that BNPL systems should not only focus on financial accessibility but also prioritize consumer welfare, financial justice, and ethical responsibility. The study identified key risks such as over-indebtedness, impulsive spending, and weak regulatory frameworks, which may threaten the protection of wealth (hifz al-mal) in Islamic economics.

Nabilah, Muthoifin, and Ishaque (2025) examined the reconstruction of Islamic law regarding BNPL schemes in the context of Sustainable Development Goals (SDGs). Their study argued that current BNPL practices require stronger alignment with Islamic ethical principles and sustainable finance objectives. The authors proposed integrating Maqasid al-Shariah principles into digital financing models to ensure justice, transparency, and economic sustainability.

Harahap and Putri (2025) explored BNPL services from an Islamic perspective by focusing on financial management and sustainability among millennials. Their findings revealed that many BNPL users experience conflicts between consumptive behavior and Islamic ethical values due to the presence of riba, gharar, and excessive debt practices. The research also showed that low Islamic financial literacy increases the vulnerability of young consumers to financial instability.

Adhani, Nurhayati, and Mugiyati (2025) conducted a systematic literature review regarding impulsive buying behavior in BNPL services from the perspective of Islamic economics. The study found that BNPL significantly encourages impulsive consumption and excessive spending behavior, especially among younger consumers. From the Islamic economic perspective, such behavior contradicts the principle of avoiding israf (extravagance) and threatens the protection of wealth under Maqasid al-Shariah.

Based on these conditions, several important problems arise and require further investigation. One of the primary issues is whether BNPL systems contain elements prohibited in Islamic finance, particularly interest-like charges and uncertain contractual arrangements(Steel, 2012). In addition, BNPL usage may generate various financial risks for consumers, including debt dependency, financial stress, impulsive purchasing behavior, and weakened financial discipline. Another important issue concerns how BNPL influences Muslim consumer financial behavior and whether these financing practices encourage consumptive lifestyles inconsistent with Islamic ethical values. Questions also emerge regarding the extent to which BNPL contracts comply with Sharia principles and whether current regulatory frameworks adequately protect consumers from unethical financing practices. Furthermore, both providers and consumers face risks related to financial sustainability, reputational concerns, operational transparency, and Sharia non-compliance.

Therefore, this research aims to analyze the financial risks present in the BNPL system from the perspective of Islamic finance. The study seeks to identify potential Sharia compliance issues in BNPL transactions, including the existence of riba, gharar, and unethical financing mechanisms. In addition, the research aims to examine the impact of BNPL usage on the financial stability and consumption behavior of Muslim consumers. Finally, this study intends to formulate recommendations for the development of Sharia-compliant BNPL models that promote ethical financing, financial responsibility, transparency, and consumer welfare within the framework of Islamic economic principles.

METHOD

This research employs a qualitative descriptive approach to analyze Islamic financial risks in the Buy Now Pay Later (BNPL) system. The qualitative method is considered appropriate because the study focuses on understanding the concepts, mechanisms, ethical implications, and Sharia compliance issues related to BNPL services from the perspective of Islamic Finance(Alhusban et al., 2021). The research aims to explore and interpret the financial risks arising from BNPL practices, particularly those associated with riba, gharar, excessive consumerism, and financial instability among Muslim consumers. Through a descriptive approach, the study seeks to provide a comprehensive explanation of the phenomenon of BNPL within the context of Islamic economic principles and digital financial development.

The type of research used in this study is library research combined with conceptual analysis. The researcher collects data from various secondary sources, including scientific journals, books, conference proceedings, government regulations, fintech reports, Islamic finance literature, and previous studies related to BNPL systems, Islamic fintech, consumer behavior, and financial risk management. In addition, the study examines fatwas, Islamic legal opinions, and Sharia regulations issued by Islamic financial authorities and scholars concerning digital financing and installment-based payment systems. These sources are used to identify the characteristics of BNPL systems and evaluate their conformity with Islamic financial principles.

The data collection process is conducted through documentation techniques by gathering relevant academic references published within the last ten years(Li et al., 2015). The selected literature focuses on topics such as financial technology development, BNPL operational mechanisms, Islamic financial ethics, Sharia compliance, consumer financial behavior, and digital financing risks. The researcher also analyzes official reports and policies concerning fintech regulations and consumer protection frameworks in digital financial services. To ensure the validity and relevance of the data, the collected references are critically reviewed and categorized according to themes related to Islamic financial risks and BNPL systems.

The data analysis technique used in this research is qualitative content analysis(Elo & Kyngäs, 2008). The researcher systematically analyzes the collected literature to identify important concepts, patterns, arguments, and findings related to the risks and ethical issues of BNPL services. The analysis is conducted by comparing BNPL practices with the principles of Islamic finance, including the prohibition of riba (interest), gharar (uncertainty), maysir (speculation), and excessive debt practices. Furthermore, the study applies the framework of Maqasid al-Shariah to evaluate whether BNPL systems support or contradict the objectives of protecting wealth (hifz al-mal), promoting social welfare, and ensuring financial justice.

In addition, the research analyzes the potential financial risks faced by both consumers and fintech providers within BNPL systems. Consumer-related risks examined in this study include over-indebtedness, impulsive buying behavior, financial stress, low financial literacy, and consumptive lifestyles(Awanis & Chi Cui, 2014). Meanwhile, provider-related risks include credit risk, operational risk, reputational risk, regulatory risk, and Sharia non-compliance risk. Through this analysis, the study aims to identify the extent to which BNPL systems create ethical and financial challenges within Islamic economic frameworks.

To strengthen the interpretation of findings, the researcher uses a conceptual and normative approach by integrating Islamic economic theories, consumer behavior theories, and financial risk management concepts. The study also compares conventional BNPL systems with potential Sharia-compliant financing models to formulate recommendations for more ethical and sustainable digital financial practices. The final stage of the analysis involves drawing conclusions regarding the compatibility of BNPL systems with Islamic finance principles and proposing strategies for the development of Sharia-compliant BNPL models that prioritize transparency, fairness, financial responsibility, and consumer welfare.

RESULTS AND DISCUSSION

Main Islamic financial risks identified

The rapid expansion of the Buy Now Pay Later (BNPL) system has introduced various financial and ethical concerns, particularly from the perspective of Islamic Finance. Although BNPL services offer convenience and flexibility in digital transactions, several practices within these systems potentially conflict with Islamic financial principles. The analysis of BNPL mechanisms reveals a number of major Islamic financial risks related to riba, gharar, excessive consumerism, financial instability, and ethical concerns in digital financing(Farooq, 2015). These risks not only affect consumers but also create broader social and economic implications within Islamic financial ecosystems.

One of the most significant Islamic financial risks identified in BNPL systems is the potential existence of riba (interest or usury). In many BNPL schemes, consumers are charged additional fees, late payment penalties, or interest-like charges when repayments are delayed(Cagan, 2020). From the Islamic perspective, any predetermined increase over the principal amount of debt may fall into the category of riba, which is strictly prohibited in Islamic teachings. Although some BNPL providers market their services as "interest-free," hidden administrative costs or penalty structures may still function similarly to conventional interest systems. This creates serious concerns regarding the Sharia compliance of BNPL transactions and raises doubts about whether such financing models genuinely adhere to Islamic economic principles.

Another important risk identified is gharar (uncertainty or ambiguity) in contractual agreements and financial transactions. Many BNPL users do not fully understand the terms, repayment structures, penalties, or conditions attached to their financing agreements. In some cases, contractual information is presented in complex digital formats that are difficult for consumers to interpret clearly. Islamic finance emphasizes transparency, fairness, and mutual understanding between parties involved in financial transactions. Therefore, unclear contractual mechanisms, hidden fees, and lack of transparent communication may create gharar, which is prohibited because it can lead to injustice, disputes, and exploitation of consumers.

The BNPL system also contributes to the growth of excessive consumptive behavior and impulsive buying patterns(Natswa, 2021). The ease of deferred payments encourages consumers to make purchases beyond their actual financial capacity. Many users perceive installment payments as reducing the burden of spending, which psychologically increases the tendency to buy unnecessary products or services. From the perspective of Islamic economics, such behavior contradicts the principles of moderation, self-control, and responsible financial management. Islam discourages israf (extravagance) and excessive consumption because they may lead to wastefulness, financial hardship, and moral imbalance. Consequently, BNPL systems may indirectly promote lifestyles that are inconsistent with Islamic ethical values.

Another major financial risk is over-indebtedness and declining financial stability among consumers. Continuous use of multiple BNPL platforms may cause consumers to accumulate debt without adequate financial planning(Natswa, 2021). Younger consumers, especially millennials and Generation Z, are particularly vulnerable because they are highly exposed to digital shopping environments and often possess limited financial literacy. As repayment obligations increase, users may experience financial stress, inability to meet payment deadlines, and long-term financial burdens. In Islamic finance, debt should be managed responsibly and should not become a source of hardship or economic oppression. Therefore, the excessive use of BNPL services may threaten the protection of wealth (hifz al-mal) as emphasized in Maqasid al-Shariah.

In addition, the analysis identified ethical risks related to consumer exploitation and unfair financing practices. Some BNPL providers utilize aggressive marketing strategies that target vulnerable consumers, encouraging them to engage in unnecessary spending through promotional discounts, instant approvals, and psychological persuasion techniques. Such practices may create unequal power relationships between providers and consumers, where users are driven into debt-oriented consumption patterns for corporate profit. Islamic finance emphasizes justice, mutual benefit, and ethical responsibility in all economic activities(Asutay, 2013). Therefore, financing systems that prioritize profit while neglecting consumer welfare may contradict the moral foundations of Islamic economics.

The BNPL system also introduces Sharia non-compliance risks for fintech providers and Islamic financial institutions. Companies claiming to offer Islamic or Sharia-compliant BNPL services face reputational and operational risks if their products are found to contain prohibited elements such as riba, gharar, or unjust contractual practices. Weak Sharia governance mechanisms, lack of supervision, and insufficient regulatory standards may further increase the possibility of non-compliance. This condition can reduce public trust in Islamic fintech institutions and hinder the development of ethical digital financial ecosystems.

Furthermore, technological and operational risks are also present in BNPL systems. Digital financing platforms rely heavily on automated systems, consumer data processing, and algorithmic decision-making. Weak cybersecurity protection, misuse of personal data, and lack of transparency in AI-based credit assessments may create additional ethical and financial challenges. From the Islamic perspective, financial systems should ensure accountability, honesty, and protection of individual rights. Therefore, technological practices that expose consumers to unfair treatment, privacy violations, or financial discrimination may conflict with Islamic ethical standards.

Overall, the main Islamic financial risks identified in BNPL systems include the potential presence of riba, contractual uncertainty (gharar), excessive consumerism, over-indebtedness, consumer exploitation, financial instability, Sharia non-compliance, and technological ethical concerns. These findings indicate that while BNPL services provide convenience in digital transactions, they also pose substantial risks that may contradict the principles of Islamic finance if not properly regulated and supervised. Consequently, there is a strong need for the development of Sharia-compliant BNPL models that prioritize transparency, fairness, financial responsibility, ethical financing, and consumer welfare within modern digital financial systems.

Consumer Vulnerability Patterns

The rapid adoption of the Buy Now Pay Later (BNPL) system has created new patterns of consumer vulnerability, particularly among younger generations who are highly engaged in digital commerce and online financial services. Although BNPL provides convenience and flexibility in purchasing goods and services, its easy accessibility and deferred payment mechanism often expose consumers to various financial, psychological, and ethical risks. From the perspective of Islamic Finance, these vulnerabilities are important to analyze because they may threaten financial stability, encourage excessive consumption, and contradict the principles of responsible financial behavior emphasized in Islamic economics.

One of the main consumer vulnerability patterns identified in BNPL usage is the tendency toward impulsive buying behavior(Johnson et al., 2021). The simplicity of installment-based purchasing without requiring a credit card makes consumers more likely to make spontaneous purchases without careful financial consideration. BNPL systems psychologically reduce the perceived burden of spending because payments are divided into smaller installments, causing consumers to underestimate the actual cost of their purchases. This condition is particularly common among millennials and Generation Z, who are highly influenced by digital marketing, social media trends, and instant consumption culture. As a result, consumers may purchase products based on desire rather than necessity, increasing the risk of excessive and unplanned spending.

Another important vulnerability pattern is low financial literacy among BNPL users. Many consumers do not fully understand the financial implications of deferred payment systems, including repayment obligations, late payment penalties, hidden charges, and the accumulation of multiple installment commitments. Some users perceive BNPL services as a harmless payment option because they are promoted as “interest-free” or “easy financing.” However, limited understanding of financial management often leads consumers to misuse these services beyond their repayment capacity. From an Islamic economic perspective, financial literacy is essential in promoting responsible consumption and protecting individuals from harmful debt practices. Weak financial literacy therefore increases the vulnerability of consumers to financial distress and unsustainable debt accumulation.

The research also identifies over-indebtedness as a significant vulnerability pattern among BNPL users. Many consumers use multiple BNPL platforms simultaneously to finance different purchases without properly evaluating their long-term financial obligations(Johnson et al., 2021). Continuous reliance on installment-based financing may gradually create debt dependency, where consumers repeatedly use BNPL services to maintain their consumption patterns. This situation becomes more dangerous when consumers experience unstable income, unemployment, or unexpected financial emergencies that limit their ability to fulfill repayment obligations. In Islamic finance, debt should be limited to genuine needs and managed carefully to avoid hardship and economic oppression. Excessive debt accumulation contradicts the principle of protecting wealth (hifz al-mal) within Maqasid al-Shariah.

Another vulnerability pattern involves emotional and psychological pressure resulting from financial obligations. Consumers who fail to manage BNPL repayments may experience stress, anxiety, guilt, and reduced financial confidence. The pressure of meeting multiple installment deadlines can negatively affect mental well-being and overall quality of life. In some cases, consumers attempt to cover previous debts by taking additional financing, creating a cycle of continuous indebtedness. This pattern demonstrates how BNPL systems may influence not only economic conditions but also the emotional and psychological stability of users. Islamic teachings encourage balanced financial behavior, peace of mind, and avoidance of harmful financial practices that may create emotional suffering or social instability.

Young consumers and students are among the most vulnerable groups within BNPL systems(Natswa, 2021). This demographic is often characterized by limited income, unstable financial conditions, and strong exposure to online shopping culture. Aggressive marketing strategies, promotional discounts, and instant approval systems specifically target younger users who are highly active in digital environments. As a result, many young consumers are tempted to prioritize lifestyle-oriented spending over financial responsibility. The desire to follow social trends and maintain social status through consumption further increases their vulnerability to impulsive purchasing and financial mismanagement. From the perspective of Islamic economics, such behavior may encourage israf (extravagance) and weaken the values of moderation and self-discipline.

In addition, consumers with limited understanding of digital contracts and financial agreements face higher risks of exploitation and misunderstanding. Many BNPL platforms present their terms and conditions through lengthy digital agreements that users often accept without careful reading or comprehension(Hanlon, 2021). This creates information asymmetry between providers and consumers, where users may unknowingly agree to unfavorable conditions, penalties, or hidden fees. In Islamic finance, transparency and mutual understanding are fundamental principles in financial transactions. Therefore, lack of contractual clarity increases consumer vulnerability and may lead to elements of gharar (uncertainty), which are prohibited in Islamic economic practices.

Socioeconomic factors also contribute to consumer vulnerability patterns in BNPL usage. Individuals with lower income levels or unstable employment conditions may use BNPL services as an alternative source of short-term financing to fulfill daily needs or maintain their lifestyles. While BNPL may temporarily improve purchasing power, dependence on deferred payment systems can worsen long-term financial insecurity if consumers are unable to manage repayments effectively. This condition highlights the risk of financial exclusion and economic inequality within digital financing systems.

Overall, the consumer vulnerability patterns identified in BNPL systems include impulsive buying behavior, low financial literacy, over-indebtedness, emotional stress, youth vulnerability, information asymmetry, and financial dependency. These vulnerabilities demonstrate that although BNPL services provide convenience and accessibility, they also create substantial financial and ethical challenges for consumers. From the perspective of Islamic finance, addressing these vulnerabilities requires stronger financial education, ethical fintech regulation, transparent contractual practices, and the development of Sharia-compliant financing systems that prioritize consumer welfare, financial justice, and responsible economic behavior.

Ethical Concerns

The rapid growth of the Buy Now Pay Later (BNPL) system has generated significant ethical concerns regarding the fairness, transparency, and social impact of digital financing practices(Nienhaus, 2020). Although BNPL services are designed to provide consumers with easier access to goods and services through installment-based payments, the operational mechanisms and marketing strategies used by many BNPL providers raise serious ethical questions. From the perspective of Islamic Finance, financial systems should not only pursue profit but also uphold moral responsibility, justice, transparency, and the protection of human welfare. Therefore, the ethical implications of BNPL systems require critical evaluation to determine whether these financing models align with Islamic economic principles and broader ethical standards.

One of the primary ethical concerns associated with BNPL systems is the encouragement of excessive consumerism and impulsive spending behavior. BNPL platforms often promote instant purchasing by emphasizing affordability through small installment payments rather than the actual total cost of products(McNeill & Snowdon, 2019). This marketing approach psychologically encourages consumers to buy products they may not truly need or cannot realistically afford. Aggressive promotional campaigns, discounts, and "buy now" incentives create a consumption-oriented culture that prioritizes short-term satisfaction over long-term financial responsibility. In Islamic teachings, moderation and balance in consumption are strongly emphasized, while extravagance and wasteful behavior (israf) are discouraged. Therefore, financing systems that intentionally stimulate unnecessary consumption raise ethical concerns regarding their social and moral impact.

Another major ethical issue involves the potential exploitation of financially vulnerable consumers. Many BNPL services target young consumers, students, and individuals with limited access to conventional credit facilities. These groups are often attracted by the simplicity and accessibility of BNPL systems without fully understanding the financial risks involved(PENZO, 2021). Some providers intentionally design user-friendly interfaces and instant approval systems that reduce consumers' awareness of debt obligations. As a result, vulnerable individuals may become trapped in cycles of repeated borrowing and repayment difficulties. From an ethical and Islamic perspective, financial institutions should avoid exploiting human weaknesses or encouraging behavior that may lead to hardship and financial instability. Economic activities should promote mutual benefit and social welfare rather than taking advantage of consumer vulnerability for profit generation.

Transparency and fairness in contractual agreements also represent significant ethical concerns in BNPL systems(Johnson et al., 2021). In many cases, users are required to agree to lengthy digital contracts containing complex terms and conditions that are difficult to understand. Hidden fees, unclear repayment structures, and ambiguous penalty mechanisms may create unequal relationships between providers and consumers. This lack of transparency increases the risk of misunderstanding and financial harm. Islamic finance strongly emphasizes honesty, clarity, and mutual consent in financial transactions. Any form of ambiguity or deceptive contractual practice may constitute gharar (uncertainty), which is prohibited because it undermines fairness and trust in economic relationships.

The existence of late payment penalties and additional charges further raises ethical questions regarding justice and compassion in financial dealings(Kane, 2002). Some BNPL providers impose substantial penalties on consumers who fail to make payments on time, even when delays result from genuine financial hardship. Such practices may worsen the financial condition of already vulnerable users and contribute to long-term debt dependency. In Islamic economics, financial transactions should avoid oppressive or exploitative practices that burden individuals excessively. Ethical financing should consider the welfare of both parties and encourage solutions based on compassion, fairness, and social responsibility rather than punitive profit-oriented mechanisms.

Another ethical concern relates to the normalization of debt culture within modern society. BNPL systems make borrowing appear routine, harmless, and even desirable as part of everyday consumption. This normalization may gradually weaken financial discipline and reduce awareness of the long-term consequences of debt accumulation. Younger generations may become accustomed to living beyond their financial means through continuous reliance on installment-based financing(Thomsett, 2018). From the perspective of Maqasid al-Shariah, financial systems should protect wealth (hifz al-mal) and promote economic sustainability. Encouraging excessive dependence on consumer debt may threaten these objectives by creating long-term financial insecurity and social imbalance.

Ethical concerns also arise regarding data privacy and technological governance in BNPL systems. Digital financing platforms collect large amounts of consumer data, including purchasing behavior, financial history, and personal information. Weak cybersecurity protections or misuse of consumer data may expose users to privacy violations, discrimination, or unethical commercial practices. In addition, algorithm-based credit assessments may produce biased or unfair outcomes that disadvantage certain consumer groups. Islamic ethical principles emphasize accountability, trustworthiness, and the protection of individual rights. Therefore, fintech companies have an ethical responsibility to ensure that digital technologies are used transparently, securely, and fairly.

Furthermore, the lack of adequate Sharia governance and regulatory supervision creates ethical risks for Islamic fintech development. Some companies market their services as "Sharia-compliant" without fully implementing Islamic financial principles in their operational practices(El-Zoghbi & Tarazi, 2013). This may mislead Muslim consumers who seek ethical and religiously acceptable financial products. Weak Sharia supervision can damage public trust and reduce confidence in Islamic fintech institutions. Ethical business practices require honesty, integrity, and genuine commitment to Sharia principles rather than merely using Islamic branding for commercial advantage.

The ethical concerns identified in BNPL systems include excessive consumerism, exploitation of vulnerable consumers, lack of transparency, unfair penalty structures, normalization of debt culture, data privacy issues, and weak Sharia governance. These concerns demonstrate that BNPL systems are not merely financial tools but also social and ethical mechanisms that influence consumer behavior and economic values. Consequently, there is a strong need for ethical fintech regulations, improved financial literacy, transparent contractual practices, and the development of genuinely Sharia-compliant BNPL models that prioritize justice, consumer welfare, and responsible financial behavior within modern digital economies.

Compatibility with Islamic Economic Principles

The Buy Now Pay Later (BNPL) system has become one of the most widely used digital financing innovations in modern financial technology(ABDELLAOUI & TZILI, 2020). Its rapid growth reflects changing consumer behavior and the increasing demand for flexible payment methods in digital commerce. However, from the perspective of Islamic Finance, the compatibility of BNPL systems with Islamic economic principles remains a subject of significant debate. Islamic economics is founded upon ethical values, justice, transparency, social welfare, and balanced economic behavior. Therefore, evaluating whether BNPL systems align with these principles is essential in determining their acceptability within Islamic financial practices.

One of the primary principles of Islamic economics is the prohibition of riba (interest or usury). Islamic teachings strictly forbid any unjustified increase over the principal amount in lending transactions because it may create exploitation and economic inequality. In many conventional BNPL systems, additional charges, late payment penalties, and interest-like fees are imposed on consumers who fail to make timely repayments. These mechanisms closely resemble interest-based financing practices prohibited in Islam. Consequently, BNPL systems containing such elements are considered incompatible with Islamic economic principles. However, some BNPL providers attempt to develop Sharia-compliant models by removing interest charges and replacing them with transparent trade-based contracts such as murabaha. In this context, compatibility depends largely on the structure and operational mechanisms of the BNPL service itself.

Another important Islamic economic principle is the avoidance of gharar (uncertainty or ambiguity) in financial transactions. Islamic finance requires all contractual agreements to be clear, transparent, and mutually understood by all parties involved(Mirakhor & Zaidi, 2007). Many BNPL systems present their terms and conditions through lengthy digital agreements that consumers often accept without fully understanding repayment obligations, hidden fees, or penalty mechanisms. This lack of transparency may create uncertainty and unequal information between providers and users, potentially leading to injustice and consumer exploitation. Therefore, BNPL systems that fail to ensure contractual clarity and openness are considered inconsistent with Islamic economic values. To achieve compatibility with Islamic principles, BNPL contracts must clearly disclose all financial obligations, payment schedules, and applicable terms in a transparent and understandable manner.

Islamic economics also emphasizes fairness and social justice in financial relationships. Financial systems should create mutual benefit and avoid practices that exploit vulnerable individuals. However, many BNPL services aggressively target younger consumers and low-income groups through persuasive digital marketing and instant financing offers. Such practices may encourage consumers to purchase beyond their financial capacity, increasing the risk of over-indebtedness and financial instability. From an Islamic perspective, financial institutions should promote responsible financing and protect consumers from harmful economic behavior. Therefore, BNPL systems that prioritize profit maximization without considering consumer welfare may conflict with the ethical foundations of Islamic economics.

Another aspect of compatibility relates to consumption behavior and financial discipline. Islam encourages moderation (wasatiyyah) and discourages extravagance (israf) and excessive materialism(Biplob & Abdullah, 2021). BNPL systems often create psychological incentives for impulsive buying by reducing the immediate perception of financial burden through installment payments. As a result, consumers may develop excessive spending habits and prioritize lifestyle-oriented consumption over actual needs. This behavior contradicts Islamic economic teachings, which emphasize responsible financial management, self-control, and balanced consumption. Therefore, BNPL systems that stimulate uncontrolled consumerism are viewed as ethically problematic within Islamic economic frameworks.

The principle of protecting wealth (hifz al-mal) within Maqasid al-Shariah is also highly relevant in evaluating BNPL systems. Islamic economic systems should safeguard individuals from financial harm, debt dependency, and economic instability(Hassan & Kayed, 2009). While BNPL services may provide short-term financial convenience, excessive use of deferred payment systems can expose consumers to long-term debt burdens and repayment difficulties. Consumers with low financial literacy or unstable income are particularly vulnerable to financial stress caused by accumulated installment obligations. Therefore, BNPL systems are only considered compatible with Islamic economics when they support financial sustainability, responsible borrowing, and consumer protection rather than encouraging harmful debt accumulation.

Despite these concerns, BNPL systems also possess certain characteristics that can potentially align with Islamic economic principles if properly designed and regulated. For example, installment-based purchasing itself is not prohibited in Islam as long as the transaction is conducted transparently, fairly, and without riba. Islamic commercial practices have historically recognized deferred payment sales (bay' bithaman ajil) and trade-based financing arrangements. Therefore, a Sharia-compliant BNPL model may be developed by ensuring fixed and transparent pricing, eliminating interest-based penalties, implementing ethical financing practices, and maintaining strong Sharia governance mechanisms.

Furthermore, Islamic economics encourages technological innovation and financial inclusion when these developments contribute to social welfare and economic justice. Properly regulated BNPL systems may help consumers access essential products and services, particularly for individuals who lack access to traditional banking facilities. However, financial inclusion should not be achieved at the expense of ethical responsibility or consumer welfare. Islamic fintech institutions must therefore balance innovation with moral accountability and social protection.

Overall, the compatibility of BNPL systems with Islamic economic principles depends on how these financing models are structured, regulated, and implemented. Conventional BNPL systems containing riba, gharar, exploitative practices, and excessive consumerism are generally inconsistent with Islamic teachings. However, BNPL models that prioritize transparency, fairness, responsible financing, consumer protection, and Sharia compliance may potentially align with Islamic economic values. Consequently, the development of ethical and Sharia-compliant BNPL systems requires stronger regulatory frameworks, effective Sharia supervision, transparent contracts, financial literacy programs, and commitment to the broader objectives of social justice and public welfare within Islamic economics.

Potential Solutions for Islamic BNPL Innovation

The rapid growth of the Buy Now Pay Later (BNPL) system has created both opportunities and challenges within the development of digital financial services. While BNPL provides flexibility and accessibility for consumers, many existing models raise concerns regarding riba, gharar, excessive consumerism, and financial instability. From the perspective of Islamic Finance, these challenges highlight the urgent need for innovative financing models that combine technological advancement with ethical and Sharia-compliant financial practices. Therefore, Islamic BNPL innovation should focus on developing digital financing systems that prioritize transparency, fairness, consumer welfare, and responsible financial behavior while remaining competitive within modern fintech ecosystems.

One of the most important solutions for Islamic BNPL innovation is the implementation of Sharia-compliant contractual structures. Conventional BNPL systems often rely on interest-based mechanisms and penalty fees that may violate Islamic principles. To address this issue, Islamic BNPL services can adopt contracts such as murabaha (cost-plus sale), ijarah (leasing), or qard al-hasan (benevolent loans) that are recognized within Islamic finance. Under a murabaha-based BNPL model, the provider purchases goods requested by the consumer and resells them at a clearly disclosed profit margin agreed upon in advance. This mechanism eliminates uncertainty and avoids interest-based transactions because the profit is fixed transparently at the beginning of the agreement. By utilizing valid Sharia contracts, Islamic BNPL systems can provide ethical financing alternatives that comply with Islamic economic teachings.

Another important innovation involves eliminating or minimizing punitive late payment penalties. In many conventional BNPL systems, consumers who miss repayment deadlines are charged additional fees that function similarly to interest(Johnson et al., 2021). Islamic BNPL models should replace such mechanisms with more compassionate and socially responsible approaches. For example, providers may apply non-profit administrative compensation solely to cover actual operational costs rather than generate financial gain from consumer hardship. Alternative solutions may include repayment restructuring, financial counseling, or temporary payment flexibility for consumers facing genuine financial difficulties. Such practices align with Islamic principles of justice, compassion, and mutual assistance in economic relationships.

Transparency and contractual clarity also represent essential components of Islamic BNPL innovation. Consumers should receive complete and understandable information regarding payment schedules, product pricing, contractual obligations, and potential risks before entering financing agreements. Digital contracts should be simplified and presented in user-friendly formats to reduce misunderstanding and information asymmetry. In Islamic finance, transparency is fundamental in preventing gharar (uncertainty) and ensuring fairness between parties. Therefore, Islamic BNPL providers should prioritize ethical communication and honest disclosure practices to build consumer trust and maintain Sharia compliance.

Another potential solution is the integration of financial literacy and responsible consumption education into Islamic BNPL platforms. Many consumer vulnerabilities arise from low financial literacy and poor understanding of debt management(O'Connor et al., 2019). Islamic BNPL providers can develop educational features that promote budgeting skills, debt awareness, financial planning, and ethical consumption behavior. Users may receive reminders about repayment capacity, spending limits, and the long-term consequences of excessive debt accumulation. Educational content based on Islamic economic values such as moderation (wasatiyyah), avoidance of extravagance (israf), and responsible financial behavior can help consumers make wiser financial decisions. This approach supports the objectives of Maqasid al-Shariah, particularly in protecting wealth (hifz al-mal) and promoting social welfare.

The development of ethical risk assessment systems is also crucial for Islamic BNPL innovation. Rather than encouraging unlimited consumer spending, Islamic BNPL providers should implement responsible financing policies that evaluate consumers' repayment capacity and financial stability. Artificial intelligence and digital analytics can be utilized to identify financial risk patterns while ensuring fairness and avoiding discriminatory practices. Ethical credit assessment systems should prioritize consumer protection rather than maximizing financing volume. This approach reduces the risk of over-indebtedness and promotes sustainable financial behavior within digital economies.

Strong Sharia governance and regulatory supervision are equally important in ensuring the credibility of Islamic BNPL systems. Islamic fintech providers should establish dedicated Sharia supervisory boards responsible for monitoring operational practices, contractual compliance, and financial products. Regulatory authorities should also develop comprehensive guidelines specifically addressing Islamic digital financing systems, including standards for transparency, consumer protection, ethical marketing, and data privacy. Effective supervision helps prevent misuse of Islamic branding and strengthens public confidence in Islamic fintech innovations.

Another promising solution is the integration of Islamic social finance instruments into BNPL ecosystems. Islamic BNPL providers may collaborate with zakat, waqf, and sadaqah institutions to support financially vulnerable consumers and promote inclusive financing systems. For example, social finance mechanisms could be used to assist consumers experiencing financial hardship or to subsidize essential goods and educational financing. This integration reflects the broader Islamic economic objective of achieving social justice and community welfare rather than purely commercial profit orientation.

Technological innovation can also support the development of more ethical Islamic BNPL systems. Blockchain technology, smart contracts, and secure digital verification systems may improve transparency, accountability, and trust in financing transactions. Automated Sharia compliance monitoring systems can help ensure that financing practices remain aligned with Islamic principles. In addition, enhanced cybersecurity and consumer data protection mechanisms are necessary to safeguard user privacy and maintain ethical digital governance.

Furthermore, Islamic BNPL innovation should promote financing for productive and essential purposes rather than purely consumptive lifestyles. Providers can prioritize financing categories such as education, healthcare, small business development, and essential household needs while limiting excessive luxury consumption. This approach encourages more socially beneficial economic behavior and aligns financial innovation with the ethical values of Islamic economics.

Overall, potential solutions for Islamic BNPL innovation include the adoption of Sharia-compliant contracts, elimination of interest-based penalties, enhancement of transparency, integration of financial literacy programs, implementation of ethical risk assessment systems, strengthening of Sharia governance, utilization of Islamic social finance instruments, and application of ethical technological innovations. These solutions demonstrate that digital financial innovation and Islamic economic principles can coexist when financing systems are designed with fairness, responsibility, transparency, and consumer welfare as central priorities. Through such innovations, Islamic BNPL systems can contribute to the development of a more ethical, sustainable, and socially responsible digital financial ecosystem.

CONCLUSION

The rapid development of financial technology has significantly transformed modern financial systems, particularly through the emergence of the Buy Now Pay Later (BNPL) model as a popular digital financing solution. BNPL services have provided consumers with convenience, flexibility, and easier access to installment-based purchasing without relying on traditional credit cards. The widespread adoption of

BNPL among millennials and Generation Z reflects changing consumer behavior in the digital economy. However, despite its practical benefits, this research finds that BNPL systems also generate substantial financial, ethical, and Sharia-related risks that require serious attention, especially from the perspective of Islamic Finance. The findings of this study indicate that many conventional BNPL systems contain elements potentially inconsistent with Islamic economic principles, particularly the existence of riba (interest-like charges), gharar (uncertainty in contractual agreements), and practices that encourage excessive consumerism. Additional fees, late payment penalties, unclear contractual terms, and aggressive marketing strategies contribute to ethical concerns regarding consumer exploitation and financial injustice. Furthermore, the ease of access provided by BNPL systems often encourages impulsive buying behavior, over-indebtedness, and dependency on installment-based financing, especially among consumers with low financial literacy and unstable financial conditions. These conditions may threaten financial stability and contradict the Islamic principles of moderation, transparency, fairness, and responsible economic behavior. This research also identifies several patterns of consumer vulnerability associated with BNPL usage, including impulsive spending, weak financial management, emotional stress caused by debt obligations, and the normalization of excessive consumption culture. Younger consumers are particularly vulnerable due to their strong exposure to digital commerce and lifestyle-oriented spending patterns. From the perspective of Maqasid al-Shariah, these practices may undermine the protection of wealth (hifz al-mal) and weaken broader social welfare objectives emphasized in Islamic economics. Despite these challenges, the study concludes that BNPL systems can potentially be adapted into Sharia-compliant financial innovations if designed according to Islamic economic principles. The implementation of transparent contractual structures, elimination of interest-based penalties, ethical financing mechanisms, responsible risk assessment systems, and strong Sharia governance frameworks can improve the compatibility of BNPL services with Islamic finance. In addition, integrating financial literacy programs, ethical consumption education, and Islamic social finance instruments may help reduce consumer vulnerability and promote more sustainable financial behavior. Therefore, the development of Islamic BNPL innovation requires collaboration between fintech providers, regulators, Islamic scholars, and financial institutions to establish ethical and consumer-oriented digital financing ecosystems. Regulatory frameworks should prioritize transparency, consumer protection, and Sharia compliance, while fintech companies should ensure that technological innovation supports social welfare rather than excessive profit orientation. Through the development of fair, transparent, and responsible financing models, Islamic BNPL systems can contribute to creating a more sustainable and ethical digital economy that aligns with the values and objectives of Islamic finance.

AUTHORS' DECLARATION

Authors' Contributions and Responsibilities

All authors contributed significantly to the completion of this research. The authors collectively participated in the conceptualization of the research topic, formulation of research objectives, literature review, data collection, data analysis, interpretation of findings, and preparation of the manuscript.

Competing Interests

The authors declare that there are no competing interests regarding the publication of this research. The authors confirm that this study was conducted independently without any financial, commercial, institutional, or personal relationships that could influence the objectivity, interpretation, or presentation of the research findings.

Acknowledgments

The authors would like to express their sincere gratitude to all individuals and institutions who contributed to the completion of this research.

REFERENCES

ABDELLAOUI, M., & TZILI, M. (2020). *Buy now pay later: overview of the international active services and of the key trends*.

Alhusban, A. A. A., Massadeh, A. A. M., & Haloush, H. (2021). The Islamic credit card as an electronic payment method: the technical trick in the installment payment contract as a financial product. *International Journal of Law and Management*, *63*(6), 599–628.

Asutay, M. (2013). Islamic moral economy as the foundation of Islamic finance. *Islamic Finance in Europe: Towards a Plural Financial System*, *5*, 55–63.

Awanis, S., & Chi Cui, C. (2014). Consumer susceptibility to credit card misuse and indebtedness. *Asia Pacific Journal of Marketing and Logistics*, *26*(3), 408–429.

Biplob, H., & Abdullah, F. (2021). THE CONCEPT OF WASATIYYAH IN CONSUMPTION: AN ANALYSIS FROM ISLAMIC FINANCIAL JURISPRUDENCE. *Islam & Civilisational Renewal*, *12*(1).

Cagan, M. (2020). *Debt 101: From Interest Rates and Credit Scores to Student Loans and Debt Payoff Strategies, an Essential Primer on Managing Debt*. Adams Media.

El-Zoghbi, M., & Tarazi, M. (2013). Trends in Sharia-compliant financial inclusion. *Focus Note*, *84*, 1–11.

Elo, S., & Kyngäs, H. (2008). The qualitative content analysis process. *Journal of Advanced Nursing*, *62*(1), 107–115.

Farooq, M. O. (2015). Islamic finance and debt culture: treading the conventional path? *International Journal of Social Economics*, *42*(12), 1168–1195.

Glavina, S., Aidrus, I., & Trusova, A. (2021). Assessment of the competitiveness of Islamic fintech implementation: a composite indicator for cross-country analysis. *Journal of Risk and Financial Management*, *14*(12), 602.

Hanlon, A. (2021). *Digital marketing: strategic planning & integration*.

Hassan, M. K., & Kayed, R. N. (2009). The global financial crisis, risk management and social justice in Islamic finance. *Risk Management and Social Justice in Islamic Finance*.

Johnson, D., Rodwell, J., & Hendry, T. (2021). Analyzing the impacts of financial services regulation to make the case that buy-now-pay-later regulation is failing. *Sustainability*, *13*(4), 1992.

Kane, E. J. (2002). Using deferred compensation to strengthen the ethics of financial regulation. *Journal of Banking & Finance*, *26*(9), 1919–1933.

Li, T., Vedula, S. S., Hadar, N., Parkin, C., Lau, J., & Dickersin, K. (2015). Innovations in data collection, management, and archiving for systematic reviews. *Annals of Internal Medicine*, *162*(4), 287–294.

Littwin, A. (2007). Beyond usury: A study of credit-card use and preference among low-income consumers. *Tex. L. Rev.*, *86*, 451.

McNeill, L. S., & Snowdon, J. (2019). Slow fashion–Balancing the conscious retail model within the fashion marketplace. *Australasian Marketing Journal*, *27*(4), 215–223.

Mirakhor, A., & Zaidi, I. (2007). Profit-and-loss sharing contracts in Islamic finance. In *Handbook of Islamic banking*. Edward Elgar Publishing.

Natswa, S. L. (2021). Buy-now-pay-later (bnpl): generation z's dilemma on impulsive buying and overconsumption intention. *BISTIC Business Innovation Sustainability and Technology International Conference (BISTIC 2021)*, 130–137.

Nienhaus, V. (2011). Islamic finance ethics and Shari'ah law in the aftermath of the crisis: Concept and practice of Shari'ah compliant finance. *Ethical Perspectives*, *18*(4), 591–623.

Nienhaus, V. (2020). The Future of Islamic Finance after the Corona Crisis. *Bait Al-Mashura Journal*, *13*.

O'Connor, G. E., Newmeyer, C. E., Wong, N. Y. C., Bayuk, J. B., Cook, L. A., Komarova, Y., Loibl, C., Ong, L. L., & Warmath, D. (2019). Conceptualizing the multiple dimensions of consumer financial vulnerability. *Journal of Business Research*, *100*, 421–430.

Pazarbasioglu, C., Mora, A. G., Uttamchandani, M., Natarajan, H., Feyen, E., & Saal, M. (2020). Digital financial services. *World Bank*, *54*(1), 1–54.

PENZO, E. (2021). *Buy now, pay later: international market analysis of the service providers*.

Steel, P. (2012). *The procrastination equation: How to stop putting things off and start getting stuff done*. FT Press.

Thomsett, M. C. (2018). Options Installment Strategies. *Springer Books*.