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FINANCIAL LITERACY, BEHAVIOR, AND INCLUSION AS PREDICTORS OF FINANCIAL WELL-BEING AMONG YOUNG BNPL USERS: A CONCEPTUAL FRAMEWORK

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Abstract:

There are now more worries about the long-term financial well-being of young people due to the rapid growth of Buy Now Pay Later (BNPL) services in Malaysia. Although BNPL platforms offer short-term affordability and convenience, young people often lack the financial literacy, behavior, and protections necessary to use these credit tools effectively. As a result, young people are more susceptible to financial stress, debt accumulation, and excessive spending. In order to investigate how financial literacy, financial behavior, and financial inclusion impact the financial well-being of young BNPL users, this conceptual paper proposes a theoretical framework based on Financial Capability Theory (FCT). The framework emphasizes the relationship between financial services by integrating three functional constructs that stand for both internal capacity and external opportunity. The model is based on three hypotheses, all of which aim to advance our knowledge of young people's financial opportunities in the digitally driven economy. This study presents a theoretical contribution by expanding the application of FCT to the understudied area of youth BNPL usage. In practice, the concept helps Fintech companies, educators, and legislators create more responsible credit systems and financial literacy initiatives. The model should be empirically validated in future studies, and demographic variables influencing these correlations should be investigated.

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Keywords:

Buy Now Pay Later (BNPL), Financial Well-Being, Financial Behavior, Financial Literacy, Financial Inclusion

Introduction

Financial decision-making among young customers has evolved due to the increasing adoption of Buy Now Pay Later (BNPL) services, particularly in developing countries such as Malaysia. Frequently, the services do not require a formal credit check or charge interest when users divide payments into smaller instalments. Although BNPL offers temporary affordability and convenience, particularly through platforms like Shopee SPayLater, Atome, and Grab PayLater, concerns are emerging about its long-term impact on customers' financial stability. Almost 3.7 million customers, primarily young people aged 21 to 45, participated in almost 77.3 million BNPL transactions, totaling RM6.2 billion in 2023, according to the report by the Consumer Credit Oversight Board 2024 (Rowena, 2024). Additionally, BNPL adoption in Malaysia has increased significantly in a short period. In the first half of 2025, the number of BNPL transactions reached 102.6 million, up from 83.8 million in the previous half. The total transaction value rose to RM9.3 billion, marking a 31% increase. The number of active BNPL accounts also climbed to 6.5 million, compared to 5.1 million at the end of 2024 (Chua, 2025).

Even while BNPL services give consumers flexible access to digital credit, young people frequently lack the skills and habits needed to use these resources safely. This group's ability to satisfy present financial responsibilities and sustain a desirable level of life in the future is known as financial well-being, and it has grown increasingly uncertain. According to recent national reports by the Credit Counseling and Debt Management (AKPK) 2024, more than 53,000 Malaysians under 30 are in debt, with a total balance of almost RM1.9 billion (New Straits Times, 2024). A large number of these cases are associated with uncontrolled use of easy-access loan instruments, such as BNPL, and inadequate financial planning.

Regulators have therefore started to react to these patterns. In order to guarantee transparency, fair treatment, and responsible lending practices, Bank Negara Malaysia (BNM) emphasized the necessity of regulating BNPL providers under the proposed Consumer Credit Act (2023/2024). Simultaneously, educational programs like university-based financial education modules and AKPK's financial literacy programs seek to improve young people's financial literacy. All of these occurrences show how urgent it is to investigate how BNPL affects Malaysian youths' financial well-being.

Although a number of studies have examined young people's financial literacy and behavior, fewer studies have examined financial well-being in relation to BNPL usage, especially in Malaysia. Much of the existing research remains centered on conventional credit instruments such as credit cards (Lusardi & Tufano, 2015; Porto, 2017). In addition, even though financial inclusion is becoming more and more important in digital finance and is acknowledged as a crucial concept in Financial Capability Theory (FCT), it is rarely included as a fundamental variable in the BNPL related studies. Most prior research treats financial inclusion only in the broader context of economic development or poverty reduction, leaving a gap in understanding its role in shaping individual financial outcomes such as young people financial well-being.

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Furthermore, there are not many models that only consider functional and cognitive financial aspects of the digital economy. The need for a more focused and useful framework that connects BNPL consumers' financial well-being to easily accessible, actionable elements is highlighted by these shortcomings.

As a result, this research offers a conceptual framework based on Financial Capability Theory, emphasizing three primary predictors: financial inclusion, financial behavior, and financial literacy. In light of Malaysia's expanding Fintech setting, the study provides a more precisely applicable and policy-relevant model by investigating how these dimensions impact financial well-being. The following are the objectives of this study:

(a) to examine the influence of financial literacy on financial well-being,
(b) to assess the impact of financial behavior on financial well-being,
(c) to explore the role of financial inclusion in shaping financial well-being among BNPL users, and
(d) to propose a conceptual model grounded in Financial Capability Theory for future empirical testing.

Literature Review

Financial Literacy

The ability to understand and utilize fundamental financial concepts, such as debt management, interest calculation, budgeting, and saving, is referred to as financial literacy (OECD, 2020). It enables customers to stay clear of financial risks and make well-informed decisions. The definition states that financial literacy comprises behaviors, attitudes, and abilities in addition to information. A person's financial knowledge, behavior, and attitudes all contribute to their level of financial literacy.

People who lack knowledge of finance clearly will have a hard time making judgments regarding borrowing, investing, and saving (Klapper et al., 2013; van Rooij et al., 2011; Frees et al., 2024). Given their increased exposure to digital financial tools like BNPL, e-wallets, and online credit systems, financial literacy is a crucial skill for young people. The recent study emphasizes the significance of providing young customers with the knowledge and skills necessary to make informed financial decisions, particularly in light of cutting-edge financial technologies such as BNPL services.

According to recent surveys, young Malaysians frequently have low levels of financial literacy. For example, according to RinggitPlus's 2022 Malaysian Financial Literacy Survey, 53% of young people do not save regularly, and many are unaware of their repayment commitments (RinggitPlus, 2022). Young people who lack financial literacy are more likely to utilize credit-based services like BNPL excessively and participate in high-risk financial behavior without completely understanding the consequences (Johan et al., 2021). Since BNPL is an innovation in online credit services that differs from traditional credit services, customers must be aware of it in order to use it efficiently (Sari, 2021; Sandria, 2021). Chernovita (2020) also found that people with financial literacy are more cautious, avoid temptation, and always consider the long-term consequences of their decisions, including the use of BNPL. To encourage

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appropriate BNPL usage and improve financial well-being, financial literacy must be improved.

Financial Behavior

The way people handle their finances, including planning, spending, saving, and avoiding unnecessary debt, is referred to as financial behavior. According to Falahati et al. (2012), Lusardi and Tufano (2015), financial stability and satisfaction are closely linked to sound financial practices, including budgeting and monitoring spending. Financial behavior, according to a study by Sabri et al. (2021), concerns how people choose to spend their money, including routine financial choices that will satisfy them.

Unfortunately, many young people find it difficult to form reliable financial habits. In Malaysia, young people frequently put lifestyle expenditures and instant gratification ahead of long-term planning (UCSI Poll Research, 2022). Financial problems like YOLO (you only live once), a lifestyle that is more concerned with the present than the future, are caused by this kind of thinking, claim Maharani et al. (2012). Additionally, FOMO (Fear Of Missing Out) is the worry that one might fall behind others' lifestyles in an attempt to appear more up-to-date and ahead of the curve.

The accessibility of BNPL platforms may make this problem worse by promoting impulsive spending and a lack of discipline in young people's budgeting. Frequent BNPL users commonly exhibit poorer budgeting practices and delayed repayment behavior, which have a detrimental impact on their financial stability, according to recent studies by Sengupta et al. (2022) and Papich (2022). Therefore, financial behavior is a crucial factor in determining financial well-being, particularly in a digital environment where internet marketing may readily influence spending and create friction.

Financial Inclusion

The availability and use of responsible, reasonably priced, and easily accessible financial services that cater to the needs of people from all income levels, including bank accounts, mobile payment systems, and credit tools like BNPL, is known as financial inclusion (World Bank, 2021).

According to recent research, financial inclusion improves long-term financial outcomes, fosters financial discipline, and strengthens saving habits, particularly for young and underprivileged individuals (Sarma & Pais, 2019; Bakar et al., 2022). It supports prudent financial decision-making, investing, and retirement readiness. Secure money storage, higher savings, stable spending, insurance, large investments, job creation, enhanced social mobility, and wealth accumulation for future generations are all made possible by financial inclusion (Hannig & Jansen, 2010; Marcelin et al., 2022).

By providing access to postponed payments outside of conventional banking institutions, BNPL platforms have become a cutting-edge example of financial inclusion. Young individuals in Malaysia who might not be eligible for traditional loans find BNPL especially alluring, which increases their access to digital financial services (Bank Negara Malaysia, 2023).

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However, financial risk may result from inclusion without control. Young consumers who have easy access to digital financial services technologies are more likely to overspend and accrue debt if they lack the necessary behavioral habits or knowledge, according to research (Chen et al., 2021; Hannan et al., 2023). As a result, this study takes into account financial inclusion as both a facilitator and a potential risk factor in the absence of sensible financial management.

Financial Well-being

According to Rahman et al. (2021), research on financial well-being is acknowledged as being crucial to comprehending total well-being. One definition of financial well-being is the capacity to fulfill present financial obligations while preserving long-term financial independence and security (Bruggen et al., 2017). Both objective elements (such as income and debt levels) and subjective opinions (like stress and future financial confidence) are included in financial well-being.

Due to the rising cost of living, stagnant income, and extensive use of digital credit tools, young people's financial well-being is becoming increasingly vulnerable. Young people under 30 are responsible for almost RM1.9 billion in debt, according to AKPK (2024), and many of them lack long-term financial planning or savings. According to Sabri et al. (2023), this is because young people face a heavy financial load that includes paying for living expenses, bills, rent, and education debts. As a result, many members of this age group have turned to credit payments to cover their bills.

According to recent research, emotional and psychological consequences are also linked to financial well-being. Particularly for young people who feel caught in a debt cycle, financial distress has been associated with higher levels of anxiety, burnout, and decreased life satisfaction (The Rakyat Post, 2024; Gailey, 2023). Poor financial well-being can affect a person's physical, mental, and social well-being, which can all result in poor work performance, hasty choices, issues with concentration, absenteeism, and decreased productivity, according to research by Osman et al. (2020).

This study's addition of financial well-being as an outcome variable attempts to provide a more thorough knowledge of Malaysian young people's financial health by accounting for both the financial and psychological effects of using digital credit.

Financial Capability Theory

The foundation of this study is the Financial Capability Theory (FCT), which was created by Sherraden (2010, 2013) and describes how people can attain favorable financial outcomes by combining behavior, knowledge, and access to financial institutions and tools. By acknowledging that financial knowledge on its own is inadequate, FCT goes beyond conventional financial literacy frameworks. Additionally, people must be able and able to act on that understanding. Two fundamental elements make up financial capability, according to FCT: (1) individual ability, which includes knowledge, skills, attitudes, and behaviors; and (2) opportunity to act, which includes having access to pertinent financial services, products, and support networks.

These two pillars are precisely aligned with the three independent variables in this study: financial inclusion, financial behavior, and financial literacy. While financial inclusion refers to the external environment and structural options that children have at their disposal, financial

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literacy and behavior indicate the internal ability of young people to handle their funds (Sherraden, 2013; Atkinson et al., 2006). Ability refers to the internal financial ability of individuals, encompassing their knowledge, skills, and behaviors in managing money. In this study, ability is represented by financial literacy and financial behavior. Financial literacy equips youth with the cognitive resources needed to evaluate credit terms, plan repayment schedules, and avoid over-borrowing (Lusardi & Mitchell, 2014). Beyond knowledge, financial behavior reflects how these skills are translated into practice through budgeting, controlling expenses, and maintaining repayment discipline (Xiao & Porto, 2017). In the BNPL context, internal ability determines whether young consumers can critically assess the costs of deferred payments and adopt responsible repayment practices rather than falling into a cycle of debt.

On the other hand, opportunity refers to the structural and institutional factors that enable or constrain financial decision-making. In this study, opportunity is represented by financial inclusion, which reflects access to affordable and appropriate financial services, including digital credit tools such as BNPL platforms, mobile wallets, and online banking. Financial inclusion ensures that individuals are not excluded from the formal financial system and can participate in digital consumption with relative ease (Sarma & Pais, 2019). For young people, greater inclusion through BNPL provides immediate opportunities to purchase goods and services without upfront cash, thereby expanding participation in the digital economy. FCT is particularly significant in a digital economy where financial tools like BNPL are widely available but not always understood or used responsibly. The theory offers a strong framework for investigating how young people use contemporary financial institutions and how their access, behavior, and knowledge all interact to affect their financial well-being.

Although FCT is adopted as the guiding theory, alternative perspectives are also relevant. The theory of Planned Behavior (TPB) suggests that financial actions (e.g., overspending or repaying BNPL loans) are driven by intentions shaped by attitudes, subjective norms, and perceived behavioral control (Ajzen, 1991). However, TPB focuses narrowly on psychological intention and does not adequately account for institutional access or structural constraints. Similarly, insights from Behavioral Economics (BE) explain how cognitive biases and heuristics (e.g., present bias, hyperbolic discounting) influence short-term decisions such as impulse purchases through BNPL (Thaler & Sunstein, 2008). While BE provides valuable explanations for irrational spending, it does not offer a holistic framework for linking knowledge, behavior, and systemic access to long-term well-being.

In order to better understand financial well-being in the context of digital credit usage among Malaysian youth, this study employs FCT, concentrating on functional constructions rather than emotional or psychological aspects. In addition to supporting further empirical research, the framework derived from this theory will offer beneficial implications for education and policy concerning young financial empowerment. Figure 1 illustrates how this study applies Financial Capability Theory (FCT) by categorizing predictors of financial well-being into two dimensions. The first dimension, ability (internal), is represented by financial literacy and financial behavior, which capture the knowledge, skills, and practices individuals use to manage money responsibly. The second dimension, opportunity (external), is represented by financial inclusion, which reflects access to affordable and appropriate financial services, including BNPL and other digital financial tools.

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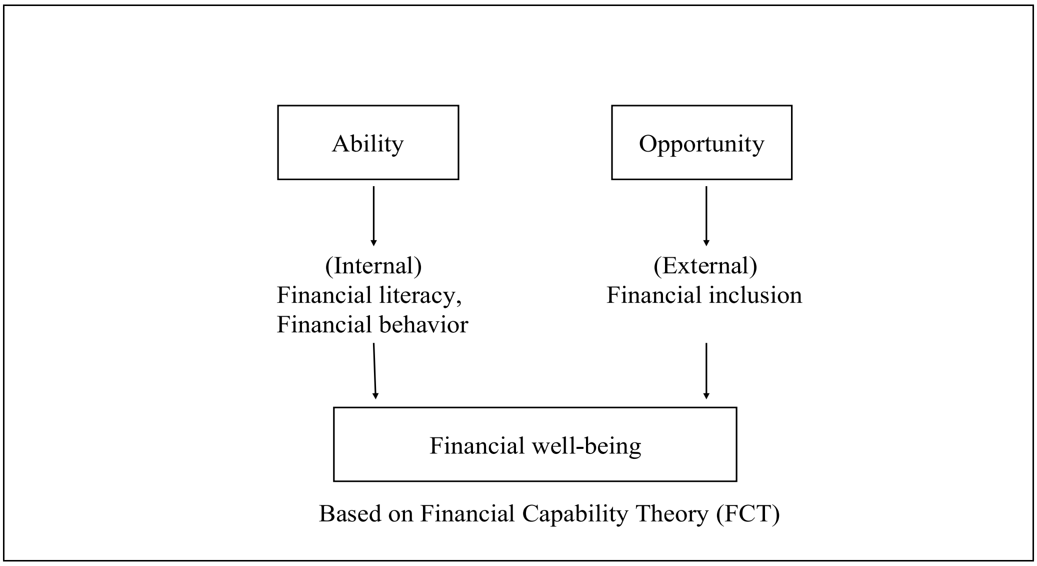

Figure 1: Mapping Capacity and Opportunity Constructs in Financial Capability Theory (FCT)

Conceptual Framework and Hypothesis Development

The proposed conceptual framework is developed based on Financial Capability Theory (FCT), which emphasizes the interaction between individual financial competencies and external opportunities in achieving positive financial outcomes. As illustrated in Figure 2, the framework examines the direct effects of three independent variables, financial literacy, financial behavior, and financial inclusion, on financial well-being among young BNPL users in Malaysia.

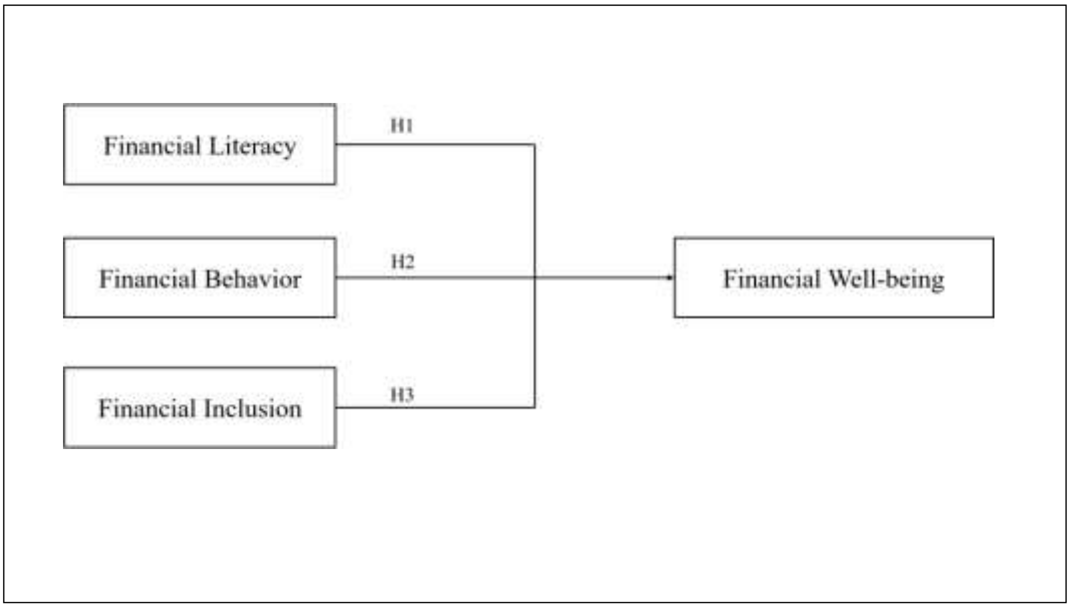

Figure 2: Conceptual Framework

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Financial Literacy and Financial Well-being

Financial literacy is the ability to understand and apply financial knowledge in real-life situations, such a budgeting, managing debt, and making informed spending decisions (OECD, 2020). People with an excellent understanding of finance will be able to make prudent choices regarding their spending, saving, and investing. Jayanthi and Rau (2019) in their study have mentioned that financially literate people have a greater capacity to deal with their finances and accomplish their goals.

Previous studies have indicated that those with greater financial literacy are more likely to be in better financial well-being (She et al., 2022; Sabri et al., 2021). Mahdzan et al. (2019) found that when people have sufficient financial knowledge, they make better logical decisions about their spending, investing, and planning. This is because those who possess financial literacy are more careful in their evaluation of their financial decisions. According to Philippas and Aydoulas (2020), financial well-being is the outcome of a financial mindset that is fostered by financial literacy.

Analyzing the financial literacy of people who use BNPL may indicate whether people with greater financial literacy are better able to handle the complexity of BNPL transactions, which could result in improved financial well-being. Young customers with higher financial literacy are more likely to assess the risks of BNPL usage, understand repayment terms, and avoid unnecessary debt. Recent studies in Malaysia indicate that low financial literacy among young consumers is associated with poor savings behavior and increased financial stress (RinggitPlus, 2022; Johan et al., 2021). Therefore, this study hypothesizes that financial literacy contributes positively to financial well-being.

H1: Financial literacy positively influences the financial well-being of young BNPL users.

Financial Behavior and Financial Well-being

Financial behavior encompasses routine money management activities such as tracking expenses, planning for future needs, and avoiding impulsive spending. According to FCT, knowledge must be translated into action to achieve better outcomes (Sherraden, 2013). Positive financial behavior is associated with improved financial security, reduced anxiety, and long-term financial health (Sabri & Falahati, 2012; Lusardi & Tufano, 2015). According to Gutter and Copur (2011), positive financial behavior, such as good financial planning, financial management, and financial decision making, will boost one's financial well-being. Research by Riitsalu and Murakas (2019) and Hoffman and Risse (2020) stated that there is a favorable correlation between financial well-being and sensible financial behavior. Financial well-being is higher for people who actively save (Anvari-Clark & Ansong, 2022; Kempson & Poppe,2018) and lower for those who take on excessive debt (Gandarsdottir & Dittmar, 2012; Richards et al., 2019).

According to earlier research, responsible financial behavior is positively correlated with an individual's financial well-being in a variety of contexts (Bruggen et al., 2017; Serido et al., 2013; Shim et al., 2009; Xiao and Porto, 2017). As stated by Hoffman and Risse (2020), responsible financial behavior includes saving, investing for the future, financial planning, and health insurance. By doing these things, people can increase their financial well-being, which in turn raises their financial stability and standard of living (She et al., 2022b; Xiao & Porto, 2017).

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Among youth, however, poor financial habits are common due to low awareness and exposure to consumerist culture. The introduction of BNPL services has made it easier for young users to bypass budgeting and overspend, often without realizing the cumulative effects. Young people who are capable of making wise financial selections will not run into problems along the way and will exhibit responsible financial practices. As a result, a youth's financial well-being is highly influenced by his behavior (Ameliawati & Setiayani, 2018; Gutter & Copur, 2011).

H2: Financial behavior positively influences the financial well-being of young BNPL users.

Financial Inclusion and Financial Well-being

According to Bank Indonesia (2014), financial inclusion is the state in which an individual has complete access to and services from a financial institution in a timely, comfortable, educational, and reasonably priced manner while maintaining their dignity. Credit and debt management programs can directly address situations that may worsen personal financial circumstances and indirectly impact an individual's financial well-being, according to research by Kim (2021). Individuals who engage in positive financial inclusion are more likely to have better financial well-being since they successfully apply financial inclusion to improve their financial situation.

According to Arnold and Venkatesan (2021), financial inclusion is one of the requirements for addressing a variety of financial issues and challenges since it is a means of developing skills and financial capabilities in an individual who is improving their financial capability. Furthermore, the study showed that the financial well-being of the financially included person who has access to financial tools, financial services, and financial products depends on their financial objectives and capabilities (Rahadiatino and Rini, 2021; Xiao and O'Neill, 2016). Therefore, it is believed that financial well-being and financial inclusion are related.
H3: Financial inclusion positively influences the financial well-being of young BNPL users.

Conclusion And Implications

This conceptual paper proposes a theoretical framework that examines the impact of financial literacy, financial behavior, and financial inclusion on financial well-being among young BNPL users in Malaysia. Grounded in Financial Capability Theory (FCT), the model emphasizes the importance of both internal capabilities, such as knowledge and behavior, and external enablers, including access and inclusion, in shaping financial outcomes for young individuals navigating digital credit systems.

Through the integration of three functional constructs under a single theoretical framework, the framework adds to the body of academic literature. By addressing young people's access to financial tools, responsible usage, and the fundamental information that facilitates informed decision-making, this study stresses a balanced and practical approach, in contrast to earlier studies that frequently concentrated on either literacy or psychological aspects. This study also applies FCT to the little-studied topic of BNPL usage, which is growing more common among young Malaysians.

From a practical viewpoint, the concept has implications for digital finance providers, financial educators, and legislators. For policymakers and regulators, the framework highlights the need for stronger oversight of BNPL services. Regulatory measures could include setting BNPL usage limits based on income, requiring providers to conduct basic affordability assessments, and enforcing mandatory pre-purchase disclosures that outline repayment obligations and penalties for late payments. The proposed Consumer Credit Act (2023/2024) in Malaysia provides a timely platform for embedding such safeguards, ensuring that financial inclusion through BNPL does not come at the cost of long-term youth financial health.

As for educators and financial literacy advocates, the findings suggest that traditional financial literacy programs must evolve to address digital credit tools. This includes integrating BNPL-specific modules into university curricula and gamifying financial education to engage youth more effectively. Initiatives such as simulated BNPL budgeting exercises or app-based learning tools could make financial capability training more relevant to digital-native populations.

Furthermore, Fintech and BNPL providers should study the points of opportunity for embedding financial capability features directly into their platforms. Providers could introduce spending limit reminders, personalized repayment alerts, or even reward systems for timely payments. Collaborations with regulators and educational institutions can further support responsible BNPL use by promoting financial discipline without discouraging participation in digital finance.

Future empirical research is encouraged to validate the proposed model through quantitative studies, such as structural equation modeling (SEM), and to explore the role of demographic moderators (e.g., income, employment status). Overall, this framework provides a timely and relevant basis for addressing youth financial vulnerability in the expanding digital financial landscape.

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