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# FAQs

## Regulation of Buy-Now, Pay-Later (BNPL)



## FAQs: Regulation of Buy-Now, Pay-Later (BNPL) Products

### What is Buy-Now, Pay-Later (BNPL)?

BNPL is a type of short-term, interest-free credit that allows consumers to split the cost of purchases into regular instalments, typically over a period not exceeding 12 months.

BNPL agreements are currently unregulated in the UK, meaning providers are not required to be authorised by the Financial Conduct Authority (FCA) and do not have to comply with the Consumer Credit Act 1974.

### Why is the government proposing to regulate BNPL?

While BNPL can be a helpful way for consumers to manage their finances, the government is concerned about the potential for consumer harm due to the lack of regulation. Risks include:

- ❖ Misleading promotions and lack of clear information about the product.
- ❖ Lack of affordability assessments, leading to over-indebtedness.
- ❖ Inconsistent treatment of customers in financial difficulty.
- ❖ Limited visibility of BNPL debts on credit files.

Regulating BNPL will bring it under the FCA's supervision, allowing for the implementation of rules and protections for consumers.

### What types of BNPL agreements will be regulated?

The government proposes regulating BNPL agreements offered by third-party lenders. Agreements provided directly by merchants (where the seller also provides the financing) will remain exempt from regulation at this stage. However, the government will monitor the merchant-provided credit market and intervene if necessary.

## What consumer protections will be introduced?

The FCA will be able to set rules for BNPL providers, including:

- ⦿ Requiring affordability assessments to ensure consumers can repay the credit.
- ⦿ Mandating clear and concise information disclosure to consumers about the product's terms and conditions.
- ⦿ Ensuring fair treatment of customers in financial difficulty.
- ⦿ Facilitating the reporting of BNPL data to credit reference agencies.

Consumers will also have access to the Financial Ombudsman Service to resolve complaints.

## Will the existing Consumer Credit Act (CCA) rules apply to BNPL?

While BNPL will be brought under the scope of the CCA, some provisions will be disapplied. This is because certain CCA requirements, particularly those related to information disclosure, are deemed unsuitable for the unique characteristics of BNPL agreements. The FCA will develop more appropriate rules tailored to BNPL, ensuring consumer understanding while avoiding unnecessary complexity.

## How will the regulation affect merchants offering BNPL as a payment option?

Merchants will not be directly regulated for offering third-party BNPL options. However, they will be required to have their promotions of BNPL products approved by an authorised person to ensure they are fair and not misleading. Additionally, merchants offering BNPL in a consumer's home will need to be authorised as credit brokers.

## **What is the Temporary Permissions Regime (TPR)?**

The TPR will allow existing BNPL providers to continue operating while their applications for full FCA authorisation are being processed. This will ensure a smooth transition to regulation without disrupting the market. Firms in the TPR will be deemed authorised and subject to FCA rules.

## **How will the government ensure the regulations are effective and up-to-date?**

The government will monitor the BNPL market and the impact of regulation closely. Furthermore, the government is committed to wider reform of the Consumer Credit Act to modernise and improve the consumer credit regime as a whole, ensuring it effectively addresses the evolving landscape of credit products and consumer needs.

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