


Buy now pay later: The countdown to regulation is on

26 June 2025  Helen Simm and Penny Hallam

Buy now pay later (BNPL) has become a UK checkout staple, offering customers a flexible way to spread payments over time, helping drive sales.

On Monday 19 May 2025, the UK Government published its response to the third consultation on future regulation of the BNPL market. With Financial Conduct Authority (FCA) regulation likely to take effect by 2026, the rules are set to change fast.

What is buy now pay later?

BNPL products are interest-free instalment credit offerings, allowing customers to split the cost of purchases into manageable payments over a period of up to 12 months. Despite their growing popularity, these products are currently unregulated. Rumblings about the potential for consumer harm have been growing ever louder over the past few years.

Proposed regulation: The headlines

Proposed regulation is set to align BNPL lenders with the stringent standards and obligations governing mainstream consumer lending. This includes requiring lenders to obtain FCA authorisation and carry out affordability checks on prospective borrowers.

BNPL agreements offered by third-party lenders will be known as 'Deferred Payment Credit' or 'DPC' agreements.

The government's aims are clear: to ensure DPC customers are well-informed about product terms and obligations, to mitigate risks of unaffordable borrowing and establish robust recourse measures for consumers. The focus will be on key protections such as FCA oversight, Section 75 protection and recourse to the Financial Ombudsman Service (FOS). The FCA is set to draft bespoke rules tailored to the digital nature of BNPL transactions, moving away from the paper-based requirements of the Consumer Credit Act 1974 (CCA).

Whilst specific rules are awaited, a Temporary Permissions Regime (TPR) will be implemented, allowing urgent regulatory action to be taken without disrupting the market and causing unintended consumer harm. The TPR regime will permit existing BNPL activities to continue whilst authorisations are applied for, which can take 12 months or more.

What does this mean for retailers?

There's some good news – for now:

- **Merchant-provided instalment credit remains exempt.** Retailers will not require authorisation to allow their customers the option to pay in instalments (over 12 months or less) without the services of a third-party lender. This will be kept under review, with the government pledging to take action if it identifies consumer harm.
- **Most merchants will not require authorisation** to introduce their customers to third party lenders offering DPC. The government acknowledges that such products are now so integrated into customers' e-commerce experience that it would be disproportionate to require all merchants brokering them to be authorised and regulated by the FCA.
- **Domestic premises suppliers** (i.e. businesses that sell goods or supply services in people's homes) will not require FCA authorisation to offer payment by instalments; however, further steps are likely to be considered in due course.

There will, however, be changes for all:

- Where unauthorised merchants offer DPC, **financial promotions will need to be approved by an authorised firm**, usually the lender. Failure to obtain the necessary approval in line with financial promotions rules could lead to regulatory enforcement.
- Merchants will be required to present clear, FCA compliant information about **DPC terms, fees and credit implications at checkout**. This could mean updates to checkout systems, staff training and more prominent customer messaging.
- **Mandatory affordability and credit checks** by DPC lenders could reduce instant approvals. This may slow the checkout process and could have an adverse impact on sales.

Looking ahead

As lenders prepare for a regulated future, the FCA is also exploring reforms to the CCA, potentially incorporating insights gained from the regulation of DPC.

A forthcoming FCA consultation is expected to provide further details on the proposed regulatory framework, offering stakeholders an opportunity to contribute to the shaping of these critical regulations. Retail businesses are advised to stay informed about (and feed into) these developments, as they will shape the landscape of consumer credit and financial promotions in the years to come.

Contact

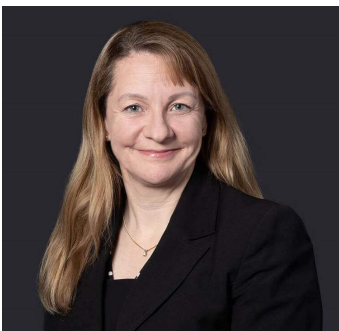


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