



## Regulating Buy-Now Pay-Later (BNPL)

HMT Consultation Response on BNPL legislation  
May 2025

On 19 May 2025, HMT published a follow-up [Consultation Response](#) on bringing unregulated BNPL agreements into the FCA's regulatory perimeter. This Response largely confirms the proposals from the October 2024 [consultation and draft legislation](#), with only minor adjustments. The countdown to "Regulation Day" has begun, with BNPL firms due to be subject to FCA regulation by mid-2026.

## Highlights

- The Government will soon lay BNPL legislation before Parliament.
- The FCA have the **next 12 months** to design, consult and finalise its rules on BNPL lending.
- Most of the new regime has been left in the FCA's hands to shape, and **firms will only have sight of the detail once the FCA begins its consultation process.**
- BNPL firms need to consider how being regulated will impact their business models and should consider their plans to authorisation.
- Although much of the detail of the regulation remains with the FCA to draft, it is clear BNPL firms will be subject to the Duty. Firms should conduct a gap analysis to determine if they have in place the necessary framework, resources and skill-set to support compliance with the Duty.

## Key Points

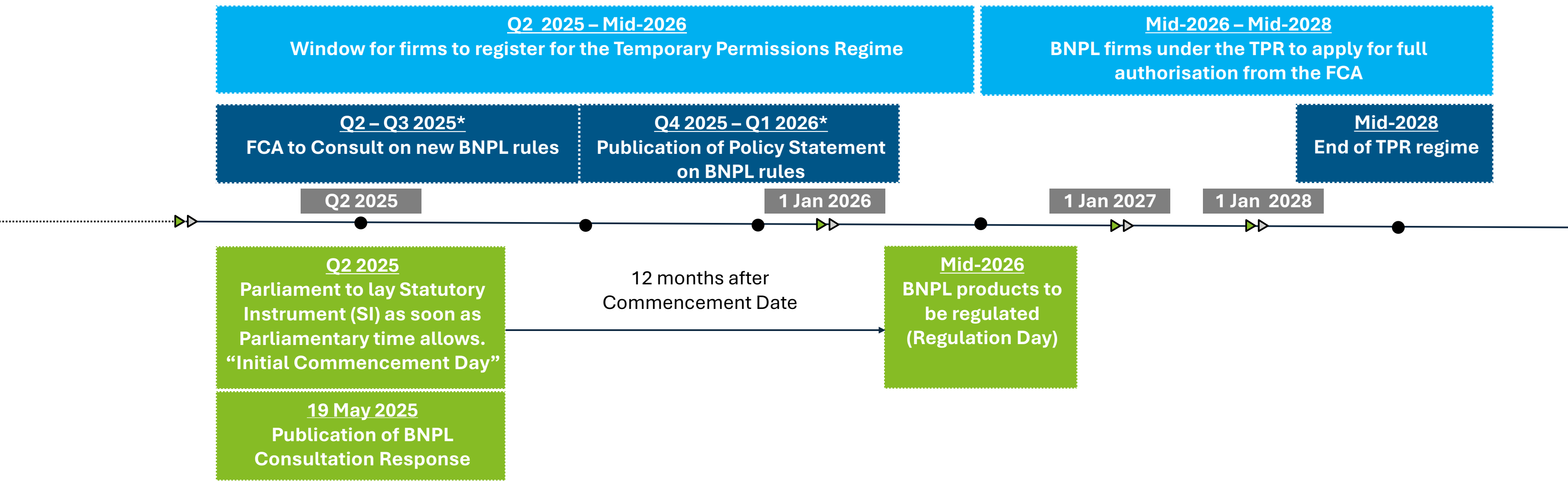
- **Scope:** Agreements offered by third-party lenders only, exemptions for interest free premium finance, social landlords and employer / employee lending remain.
- **Credit broking:** Merchants which offer BNPL as a payment option will not be required to hold credit broking permissions (except for domestic premises suppliers).
- **Financial promotions:** Unauthorised Merchants will need approval for BNPL promotions from authorised firms.
- **Distance Marketing Regulations (DMR):** Disapplying DMRs for unauthorised brokers where information is disclosed by authorised lenders in accordance with the FCA's rules on distance marketing.
- **Information requirements:** Consumer Credit Act (CCA) provisions will be disapplied and the FCA will consult on disclosure requirements that are aligned with the principles of the Consumer Duty.
- **Consumer Duty:** BNPL firms will be subject to the requirements of the Consumer Duty.
- **Temporary Permissions Regime (TPR):** transitional arrangement designed for existing BNPL firms to operate as if authorised for a limited time while they apply for full FCA authorisation.
- **Time Orders:** To be retained in legislation to support ensure consumer protection and to incentivise lenders to act responsibly.
- **Credit reference Agencies (CRA's)** – Firms will be expected to report data on customer credit agreements to CRA's in an accurate and timely manner to promote responsible lending.

## What is new since the October 2024 Consultation?

- **Senior Managers and Certification Regime (SM&CR):** Firms will be exempt from SM&CR requirements during the TPR.
- **Domestic Premise Suppliers (DPS):** The Government is aware of the cases where domestic premises suppliers could be exempt from becoming authorised credit brokers. The Government will actively engage with merchants on this issue to help determine whether DPS should be exempt from credit broking regulations. The Government will set out its next steps in due course.

# Timeline of future developments

2025/28



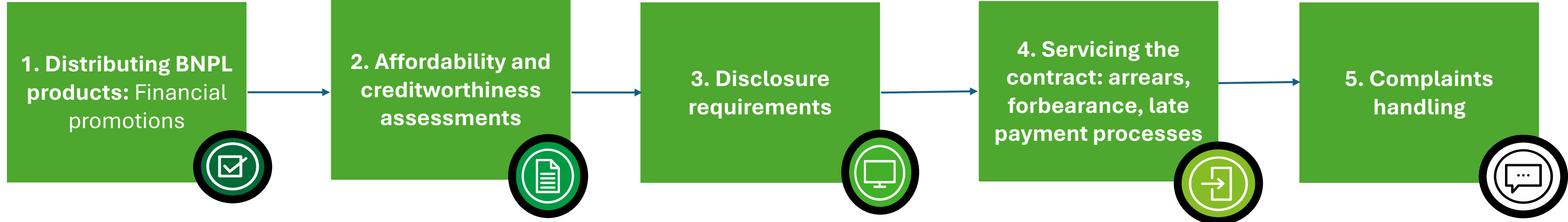
Government

FCA

BNPL Firms

\*Estimates

# The BNPL journey under the proposed new rules: key considerations



## Under proposals

- Unauthorised merchants will be required to obtain approval for promotion of BNPL agreements from an **authorised person**.
- Firms in the TPR **will not be able to approve bespoke financial promotions developed by merchants**. Given the current practice of merchant-led promotions, this could lead to some changes in the way BNPL is promoted while firms remain in TPR.
- The FCA will consult on how current rules should be tailored for BNPL products. Consumer credit firms are currently required to carry out a reasonable assessment of customers' affordability and creditworthiness prior to entering into a regulated credit agreement.
- The Government supports clear and consistent reporting of **BNPL agreements to Credit Reference Agencies (CRAs)**.
- Information disclosure regime will be based on the FCA Handbook and considerations of the Consumer Duty.
- The FCA **will consult** on a **modern disclosure regime** for BNPL products, including whether and to what extent CONC is suitable for BNPL products.
- The FCA **will consult** on how current rules on how firms should support borrowers in financial difficulty should apply to BNPL agreements (CONC (Chapter 7, [PS24/2](#) and [FG 24/2](#))).
- Firms will be required to follow the FCA's **mental capacity guidance** set out in CONC 2.10.
- The FCA will consult on applying **complaint handling rules** to firms providing BNPL products.
- Consumers will be able to **refer their BNPL complaints** to the Financial Ombudsman Service.

## Duty and other considerations

- The FCA has taken down or amended over 10,000 ads in 2023 alone. The FCA's new financial promotions gateway has raised the bar for approval, making it more likely that financial promotions will be rejected.
- Establishing **robust controls over financial promotions** could be challenging in a market where thousands of merchants normally design their own promotions.
- BNPL firms will need to consider **the target market and fair value** of their products with particular attention to the fair treatment of **vulnerable customers**.
- The FCA found 44% of the most frequent BNPL users are over-indebted and include many potentially vulnerable customers. This will be a challenge for BNPL firms as they implement **compliant affordability assessments into what has traditionally been a near-instant product approval process**.
- Firms need to ensure information provided to customers is clear, timely and helps customers make informed decisions.
- Firms will also need to develop a framework to monitor and evidence **consumer understanding**. The **prevalence of over-indebtedness and vulnerability** in this market needs to be considered when developing comms, disclosures and designing outcomes testing.
- The FCA has issued and updated its guidance on the treatment of customers in financial difficulty several times over the past few years and fined firms which were found in breach.
- Considering the prevalence of over-indebtedness among BNPL consumers, we expect firms will need to develop processes to support them and other vulnerable customer effectively. They should also plan how to monitor the outcomes of the support provided.
- **Building up the capacity** to handle complaints in accordance with the FCA's rules will be a significant task in terms of the expertise and resources required.
- In the past year, the consumer credit sector has seen an **increase in complaints** escalated to FOS and perceived irresponsible lending is one of the leading causes of such increase.
- See our previous [blog](#) on this matter for more information.



# Preparing for the transition to regulation: key questions

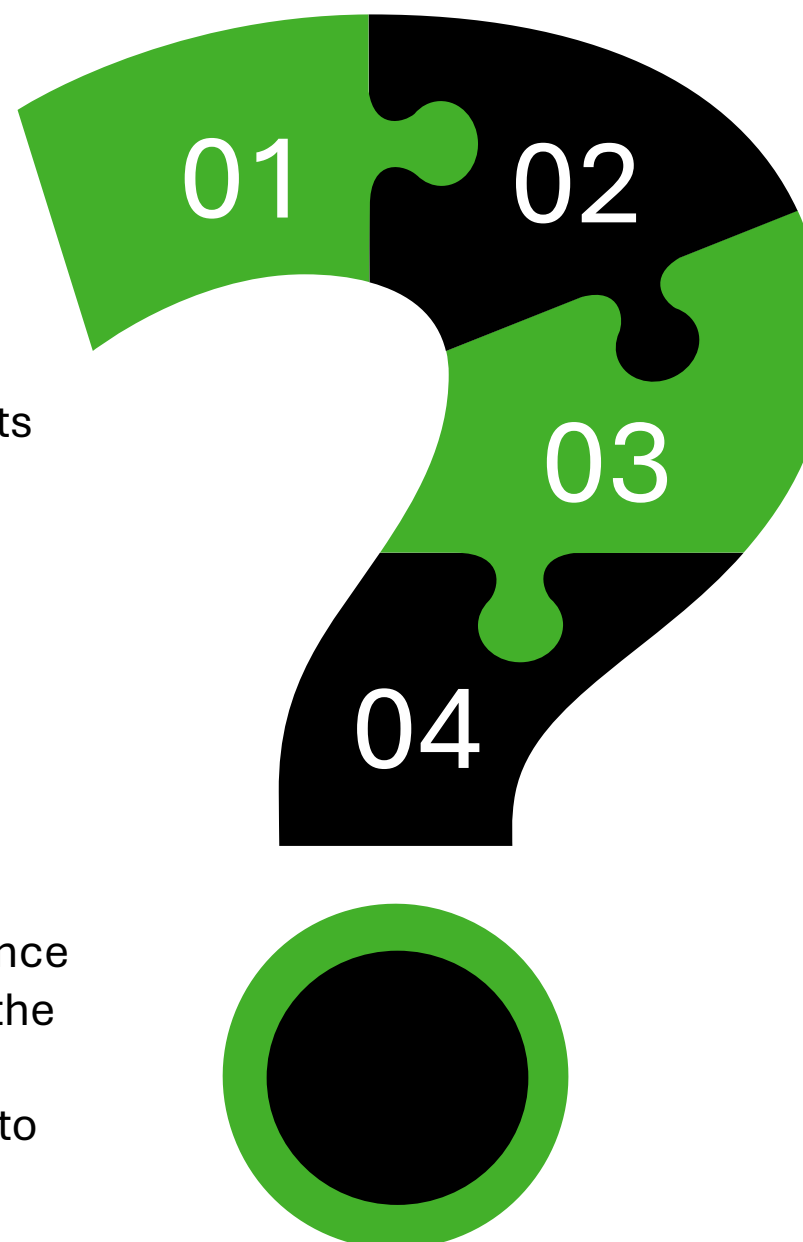
Once Parliament lays legislation, firms will have only 12 months until Regulation Day (mid-2026) – by which time their new BNPL agreements will need to be compliant. In addition, most of the new regime has been left in the FCA’s hands to shape, and firms will only have sight of the detail once the FCA begins its consultation. This condensed timeframe between FCA Consultation and Regulation Day highlights the importance of prompt preparation for BNPL firms. Our previous blog “[Getting ahead of the game](#)” provides some detailed insights. Below we include a summary:

## 1. What is the firm’s business model and proposition offering?

- Firms should assess their BNPL business model and proposition offering to determine whether authorisation is required.
- Firms will also want to assess their preferred strategy depending on the size of their BNPL portfolio and growth targets in light of the potential impact of regulation on the market.
- Based on the above assessment, firms should also develop a preliminary budget to account for the level of resources, technology and product changes that may be required to support regulatory compliance.

## 3. Does the firm have a framework and supporting processes for evidencing compliance?

- Firms need to be prepared to be able to demonstrate compliance with rules, requirements and expectations that are set out by the FCA as part of any new regulatory regime for BNPL firms.
- Although the FCA will provide more detail on how these apply to BNPL, firms will benefit from understanding the experience of consumer credit firms that have been regulated for longer.
- Areas of the business that might require building/strengthening include: quality assurance processes, outcomes testing, second line monitoring, MI and governance arrangements, and complaints handling and root cause analysis.



## 2. How can the firm prepare for authorisation?

We expect the FCA to take a rigorous and challenging approach to authorising BNPL firms. Key actions to develop a successful application include:

- Assessing the nature and scale of resources needed to engage in the authorisation process.
- Preparing to demonstrate how the firm meets the FCA’s threshold conditions and to submit a detailed Regulatory Business Plan.
- Having a robust compliance framework as well as processes, systems and controls to meet any new regulatory regime set out by the FCA for BNPL firms.

## 4. What will the Duty mean to a BNPL firm?

- Whilst the FCA is expected to design a tailored regime proportionate to BNPL firms, it is clear that BNPL firms will have obligations under the Duty. Some considerations could include: can we clearly define the target market for the product at a granular enough level? Do we have a value assessment for the product? Are there processes in place to provide adequate support and do they cater for vulnerable customers?



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Buy-Now-Pay-Later - regulation  
moves closer



Buy-Now-Pay-Later – Getting ahead  
of the game



Evidencing Consumer Duty  
compliance: shedding light on the  
FCA’s data expectations



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