

Deferred Payment Credit (Buy Now Pay Later): *Proposed approach to regulation*

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Agenda

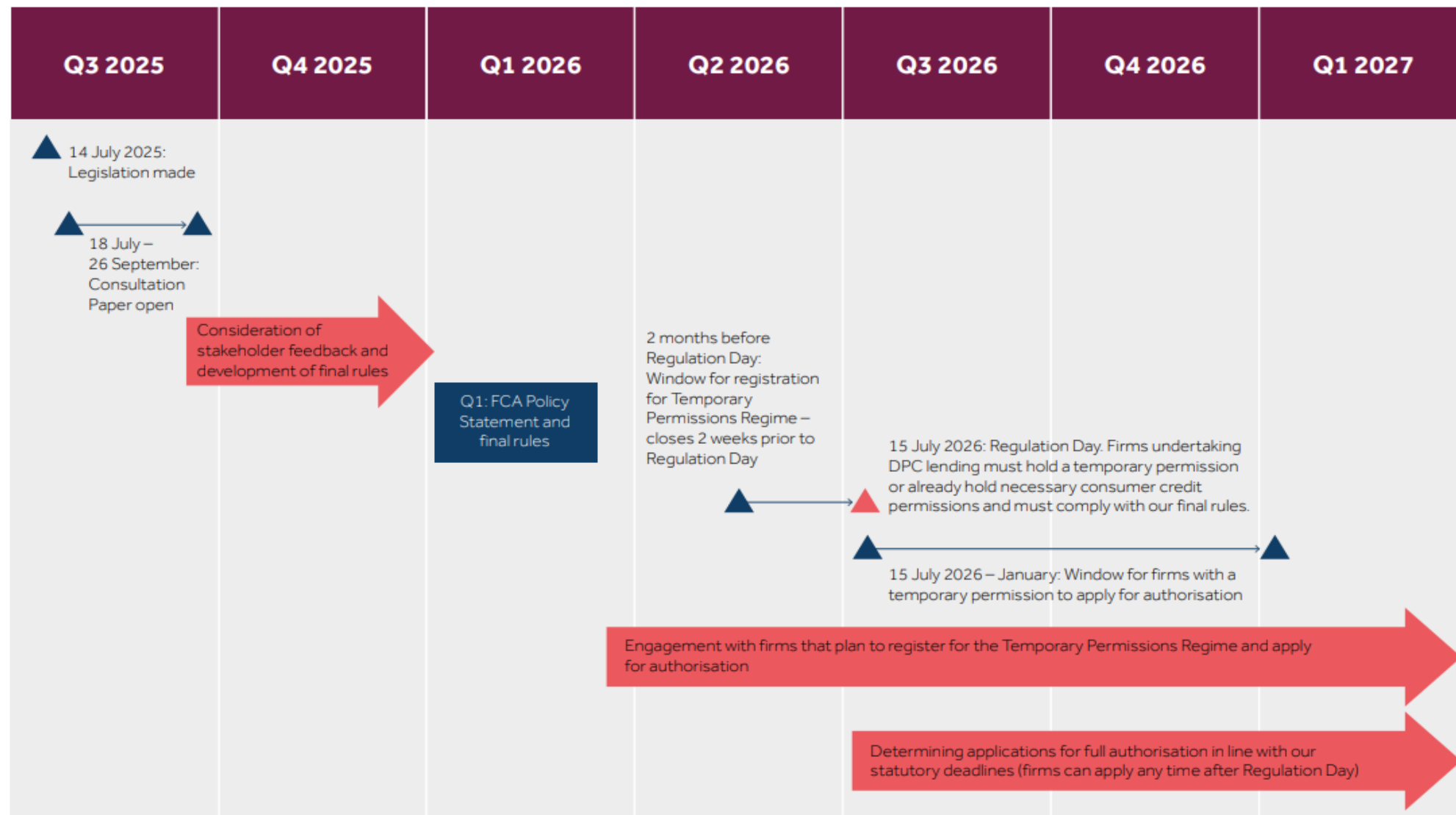
1. DPC/BNPL and its history
2. Proposed approach
3. New regulatory perimeter (RAO 2025)
4. The Rules
5. Temporary Permissions Regime
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Deferred Payment Credit (Buy Now Pay Later)

- An interest-free credit product that is repayable in 12 or fewer instalments, within a maximum period of 12 months.
- The DPC/BNPL sector has grown from just £0.06bn in 2017 to over £13bn in 2024. 20% of UK adults (10.9 million) used DPC in the 12 months to May 2024.
- Government and regulatory concerns around consumer protection have led to regulation of DPC from 15 July 2026.
- Key risks identified include consumer understanding, a lack of clear accessible information about DPC products, no assessment of affordability and inconsistent treatment of customers falling into difficulty.



Timeline for implementation



Approach and the five principles for the new regime

FCA's Approach:

Designed to be proportionate and to support both consumer protection and market innovation

Access to
simple, clear
and
accessible
information

Consumer
protection

Affordable
lending

Proportionate
lending

Urgent
regulation

The new regulatory perimeter

Within Regulation

From 15 July 2026, interest free credit agreements for no longer than 12 months and no more than 12 payments either:

- a) where the lender and supplier are not the same person, or
- b) where the principal supplier provides goods and the lender has purchased the goods from the principal supplier and supplies and lends

Still exempt

- Interest free premium finance arrangements
- Employee benefits
- Goods/services provided by a registered social landlord to tenants
- Agreements where supplier and lender are the same person
- All credit broking of DPC

Relevant regulated activities

- The relevant regulated activities for lenders will be:
 - Article 60B(1) RAO – Entering into a regulated credit agreement as lender.
 - Article 60B(2) RAO – Exercising, or having the right to exercise, the lender's rights and duties under a regulated credit agreement.
 - Article 64 RAO – Agreeing to carry on a regulated activity so far as it relates to the activities in Article 60B(1) and (2) RAO.
- DPC will be within scope of the financial promotions regime and the approvers regime will apply

Incoming rules

Element	Requirements
Information Requirements	DPC lenders must provide “Key Product Information” and “Additional Product Information” before the agreement is entered into.
Creditworthiness and Affordability	The FCA proposes to apply its existing principles-based rules (CONC 5.2A) to DPC, requiring proportionate creditworthiness and affordability assessments for all loans, including repeat lending and small-value agreements.
Application of FCA Handbook	DPC lenders will be subject to the Consumer Duty, Senior Managers and Certification Regime (SMCR), and other relevant sourcebooks such as PRIN, COND, SYSC, and DISP. DPC lenders will also be subject to the conduct standards in the CONC, in particular CONC 7.
Complaints	Consumers will have access to the Financial Ombudsman Service for disputes with DPC lenders
Ongoing requirements	DPC lenders must monitor for signs of financial difficulty, provide timely information about missed payments, and ensure fair treatment of customers in arrears

Information Requirements

Significant differences to other types of regulated consumer credit lending:

- Formalities of credit agreements under the CCA do not apply to DPC agreements
- CCA obligations on providing statements do not apply
- Formalities of modifying agreements do not apply
- Post-contractual notices in particular NOSIAs, SNOSIAs and default notices do not apply

Pre- and post-contractual information requirements are set out in the proposed FCA rules

Customer communications: pre-contract

The FCA is proposing new rules in CONC 4 to require DPC lenders to disclose certain 'key product information' and 'additional product information' before a consumer enters into a DPC agreement, including:

Key Product Information	• rate of interest (stating that it is 0%). • amount of credit provided under the agreement. • number and frequency of payments to be made • amount of each payment to be made • cash price of the goods or services being bought with finance • Principal consequences of missing payments. • a copy of the agreement and both the key and additional product information in a durable medium immediately after entering into a DPC agreement
Additional Product Information	- The identity of the lender and the merchant/broker. • rights set out in the key product information, including withdrawal, cancellation and early repayment rights and how to exercise them (such as those available under section 66A of the CCA - how to make a complaint and how to escalate a complaint to the Financial Ombudsman. • Further detail on the consequences of the consumer missing payments, • explanation of the protections available under section 75 of the CCA • The contractual terms and conditions.

Customer communications: post-contract

In the absence of CCA requirements, the FCA is proposing a new approach for post-contractual information for DPC agreements	
Statements	• No obligation to provide statements or other regular information during the lifetime of a DPC agreement • Reliance on the Consumer Duty and firms assessing what type of information is needed by customers and when • Firms should ensure they are aware of risks that may reduce consumer understanding, especially: • Multiple DPC agreements • Amendments or cancellation of agreements on return of some/all of the goods
Arrears and Default	• CONC 7 to apply to DPC agreements with additional rules • Consumer Duty is insufficient to ensure appropriate and timely information about missed repayments – a standardised approach is needed • New rules will require: • Communication with the customer as soon as possible after they miss a repayment • Reasonable notice before steps are taken to terminate or enforce a DPC agreement • No rules on format or medium of communication • Limited rules on content – the communication must identify the agreement, what sums are unpaid including fees and the consequences of missing payment and how to address these.

Affordability and creditworthiness

- Affordability requirements in CONC 5.2A will apply to DPC lenders in full
- Lenders will need to make a reasonable assessment of whether customers are able to repay in full and do so affordably for them
- It is for lenders to determine what is sufficient information to assess affordability
 - But the CP notes the FCA has seen a “minimal assessment” based on whether the customer was behind with repayments with that firm
- Adequate systems and controls are expected, including assessment of any AI or tools used to assist assessments
- Customer vulnerabilities should be considered
- Repeat lending especially where the customer has previously missed repayments should trigger a probing of the customer’s financial position



Complaints and dispute resolution

From Regulation Day the FOS will have jurisdiction over DPC complaints

DPC lenders both authorised and in the TPR will need to comply with all aspects of DISP to ensure complainants are dealt with promptly, consistently and fairly. This includes time limits for responses and consideration of the wider implications of complaints and FOS rulings

FOS case fees will apply to DPC complaints as to any other complaint. This includes the CMC levy structure

Consumer Duty

The Consumer Duty will apply from Regulation Day. Firms will need to act to deliver good outcomes for customers. Key aspects to consider will be:

- The cross-cutting rules, especially where customers are using DPC products repeatedly or hold multiple DPC products
- Consumer understanding in light of the level of prescribed information in the FCA rules
- Consumer support
- Vulnerable customers, having regard to the wide nature of this concept
- Monitoring and the annual board report

New guidance is proposed by the FCA to assist DPC firms with the application of the Duty

Rules applying generally to authorised firms

In common with other authorised firms, DPC lenders will have to comply with all areas of the FCA Handbook setting out generally expected standards. In addition to the Consumer Duty, this includes:

- PRIN – the high level overarching principles of business
- SYSC – setting out requirements on expected systems and controls that all firms are expected to maintain to ensure compliance with the regulatory regime
- SMCR – senior managers and certification regime (applicable only once fully authorised)
- COCON – individual and senior manager rules of conduct directly applicable to staff involved in regulated business

Regulatory reporting

Existing regulatory reporting requirements will apply to fully authorised DPC lenders and their regulated DPC activities.

- If already authorised, aggregated reporting will apply from Regulation Day
- Product Sales Data reporting will apply to all firms within the relevant thresholds (£2m + lending)

Firms in the Temporary Permissions Regime (TPR) will not be required to report on their DPC activities

Temporary Permissions Regime

- Notification for registration for the TPR will open two months before Regulation Day and will close two weeks before Regulation Day.
- To become registered for temporary permission, firms must provide the FCA with:
 - Evidence that they were undertaking DPC lending on 15 July 2025 (the initial commencement date of the government's legislation).
 - Their firm's details, which include their registered office, principal place of business and any trading names.
 - Details of the firm's controllers and senior managers.
 - Firms will also be required to attest that from Regulation Day they will comply with FCA's rules.
- If a firm has not registered for the TPR and does not have relevant permissions, it will not be able to carry out new DPC lending on or after Regulation Day. However, it may continue servicing agreements made before Regulation Day.
- Firms that exit the TPR without authorisation will be able to enter a Supervised Run-Off Regime (SRO). Under the SRO, DPC lenders that have entered into newly regulated credit agreements would be able to retain a temporary permission for the relevant regulated activity for up to two years.

Preparing for Regulation Day

New firms

- Determine whether to register for the Temporary Permissions Regime or to enter run-off
- Prepare for authorisation – including application process and creation of necessary policies, systems and controls
- Ensure senior managers are identified and they and all staff are trained on FCA requirements
- Familiarise with FOS processes and complaints processes

All firms

- Documentation of DPC agreements in line with FCA expectations
 - Design processes to assess affordability of DPC agreements
 - Ensuring that Consumer Duty expectations are met, including product governance, price and value, understanding and support
 - Consideration of vulnerabilities in firms' DPC customers and how to address these
 - Liaising with merchants re: financial promotions and new sales processes
- Ensure training of staff to meet new expectations
 - Preparation to meet monitoring and reporting expectations
 - Firms with DPC business models that involve the provision of a payment service should consider whether they are also required to disclose relevant information to borrowers as required under the Payment Services Regulations 2017 (PSRs)

Issues to consider

The consultation is open for responses until 26 September 2025.



Questions?



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Thank you