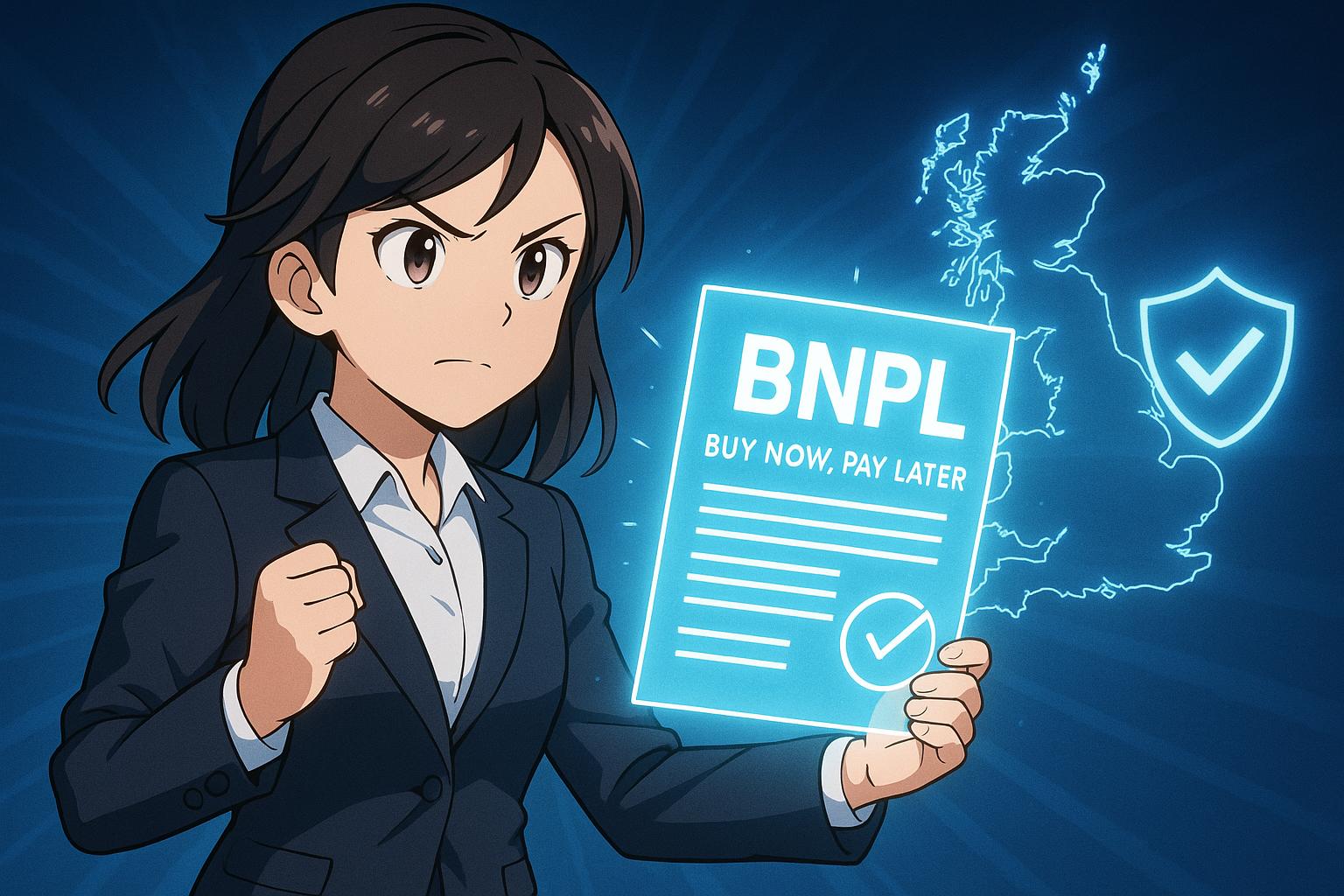
# UK to regulate buy now, pay later sector with FCA oversight from 2026



The UK government has declared its intention to regulate the "buy now, pay later" (BNPL) lending sector, a move that many view as a necessary step towards ensuring consumer protection in this rapidly evolving financial landscape. By bringing BNPL providers like Klarna and Clearpay under the oversight of the Financial Conduct Authority (FCA), the government aims to address concerns about unmanageable debt and the risks associated with unregulated lending practices. This shift mirrors long-held views that the current regulatory framework is inadequate for modern lending practices, particularly those associated with digital commerce.

The government’s announcement will necessitate BNPL firms to perform rigorous affordability assessments before issuing loans, taking into account individuals' incomes, expenditures, and broader financial commitments. Moreover, borrowers will gain the right to lodge complaints with the Financial Ombudsman, thus introducing a layer of accountability that many consumer advocates have long demanded. According to recent consultations, these new regulations are anticipated to be implemented by early next year, although the new rules would only become effective in 2026.

Interestingly, many BNPL providers have already started to adapt to these incoming regulations. For instance, Klarna had pre-emptively begun performing credit checks in June 2022, an initiative that appears positioned to smooth its compliance with the forthcoming rules without disruptive transformations to its service model. Several industry insiders suggest that such proactive measures not only mitigate the impact of regulation but also curtail the uncertainty that may hinder market competitiveness.

Despite the resilience shown by established players in the BNPL space, challenges remain. The rising popularity of these lending models, which offer interest-free short-term loans, has led to mounting debts among consumers, with late fees contributing significantly to financial strain. Critics express concerns that without clear regulations, consumers could face misleading marketing practices that encourage reckless spending. In light of this, consumer advocacy groups have urged for enhanced transparency in marketing materials and clearer risk disclosures to ensure that consumers are fully informed before engaging with BNPL products.

Additionally, while major players like Klarna are positioned to weather regulatory storms, the risk posed by a potential economic downturn remains significant. The sector has not experienced serious challenges to its underwriting standards, raising questions about the robustness of these models. Recent market developments indicate that some smaller firms have already succumbed to competitive pressures, such as Laybuy and Zip halting their UK operations as consolidation begins to reshape the landscape. In this context, larger firms with diverse revenue streams and established customer bases are likely to emerge as the biggest beneficiaries. Indeed, companies such as Affirm and even PayPal are seen as well-placed to absorb the costs of compliance, and they might even gain advantages from the increased regulatory scrutiny affecting less stable competitors.

A focus on affluent demographics may also present opportunities for BNPL firms that can adapt their offerings accordingly. For instance, Klarna’s recent strategic decisions, such as selling its UK BNPL loans to a US hedge fund to streamline its balance sheet, illustrate the lengths to which firms are going to ensure capitalisation for growth, particularly as international market expansions loom. These moves appear designed to reinforce their competitive positioning, especially as they target partnerships with prominent brands in the US market, such as Apple and Uber Eats.

In conclusion, while the impending regulation of the BNPL sector is largely seen as a protective measure for consumers, it also serves to formalise the existing practices of many industry leaders. As the regulatory landscape evolves, the sector must navigate the dual challenges of compliance and maintaining customer trust while also adapting to an economic environment that may soon test their business models more rigorously than ever before.

### Reference Map

1. Paragraphs 1, 2, 3, 5
2. Paragraphs 2, 5
3. Paragraphs 2, 3
4. Paragraph 6
5. Paragraphs 4, 6
6. Paragraph 2
7. Paragraph 6

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.ft.com/content/4c04be69-2dcf-4124-a5a5-3e1e4d6f9283> - Please view link - unable to able to access data
2. <https://www.ft.com/content/fb473d88-112b-432e-8e13-f7b974d7bf5d> - The UK government is set to regulate 'buy now, pay later' (BNPL) lenders through new legislation that will bring them under the oversight of the Financial Conduct Authority (FCA). This move aims to protect consumers from unmanageable debt and ensure fair lending practices. Companies like Klarna and Clearpay will need to conduct stringent affordability checks, assessing income, spending, and other financial commitments. Borrowers will also be able to lodge complaints with the Financial Ombudsman. The Treasury plans to reform the outdated Consumer Credit Act to align with modern lending practices and digital commerce. Although some BNPL providers already perform credit checks, the new rules may impose higher operational costs and stricter requirements. Consumer advocates welcomed the measures but also called for improved transparency in marketing and clearer information about risks. A tailored disclosure regime for BNPL firms will replace outdated rules, addressing industry concerns about customer experience and online transaction efficiency. Klarna and others have expressed support for the regulation, emphasizing its potential to safeguard consumers and foster innovation in the sector. The initiative follows years of consultation and delays since initial plans were announced in 2021.
3. <https://www.ft.com/content/f286c6de-5c1b-4fdd-a603-741e3f7ae2ae> - The UK government has initiated a consultation to regulate 'buy now, pay later' (BNPL) lenders by placing them under the Financial Conduct Authority's (FCA) rules and the Consumer Credit Act, aiming to implement affordability checks for consumers. This would require BNPL providers, such as Klarna and Clearpay, to assess shoppers' ability to afford repayments before issuing loans, and provide clear, accessible information about loan agreements. The government's move seeks to protect consumers, enabling them to lodge complaints with the Financial Ombudsman and claim refunds from lenders. This regulation follows increasing popularity of BNPL loans, which offer interest-free, short-term payment options but have led to significant consumer debts from late fees. The consultation's urgency reflects the need for swift implementation to safeguard consumers. Legislation is expected early next year, with new rules effective in 2026. Both consumer groups and BNPL industry representatives have welcomed the changes, recognizing the necessity for balanced regulations that protect consumers and support sector growth.
4. <https://www.ft.com/content/5ace6764-f406-4933-9f59-f0716a6eade4> - Klarna is selling its UK 'buy now, pay later' loans to US hedge fund Elliott to free up £30bn for new loans. This move aims to enhance Klarna's capitalisation and support its growth targets, especially before a planned US IPO. Klarna will continue underwriting loans and providing customer service. The company's strategy focuses on the US market, where it partners with major brands like Apple and Uber Eats. Despite experiencing regular profits until 2019, Klarna embraced some credit losses to drive US expansion. The fintech, licensed as a bank in Sweden, has pioneered short-term, zero-interest loans. The UK government plans to regulate BNPL loans, which are currently unregulated. Klarna has engaged in other significant deals to manage capital, such as selling its checkout product for $520mn to avoid competition and considering a pre-flotation sale of employee shares.
5. <https://www.fca.org.uk/news/press-releases/fca-secures-contract-changes-buy-now-pay-later-customers> - The Financial Conduct Authority (FCA) has secured changes to potentially unfair and unclear terms in the contracts of Clearpay, Klarna, Laybuy, and Openpay. The FCA was concerned there was a potential risk of harm to consumers as a result of the way some of the firm’s terms were drafted. The Woolard Review into change and innovation in the unsecured credit market found the use of Buy-Now Pay-Later (BNPL) products nearly quadrupled in 2020 to £2.7 billion. The Government plans to change the law to bring some of the current forms of unregulated buy-now-pay-later products into FCA regulation. Even though the type of buy-now-pay-later agreements offered by these firms are not yet regulated, the FCA was able to use the Consumer Rights Act to assess the fairness and transparency of the terms. As a result of the FCA’s work, the firms are making terms on issues like contract cancellations and continuous payment authorities fairer and easier to understand. In addition, one of the terms that involved late payment fees has resulted in Clearpay Laybuy, and Openpay agreeing to voluntarily refund customers who have been charged late payment fees in specific circumstances.
6. <https://www.klarna.com/uk/blog/all-you-need-to-know-about-klarna-reporting-bnpl-payments-to-credit-reference-agencies/> - Klarna will begin sharing the use of BNPL products with the UK credit reference agencies (CRAs) to help UK consumers build a positive credit history using Buy Now Pay Later, protect consumers from taking out unsustainable amounts of debt with multiple providers, and provide the financial industry with greater visibility of BNPL use. Until now the UK’s credit reporting infrastructure was built with traditional credit in mind, so Klarna has partnered closely with the CRAs in the UK over the past two years to help them update their systems to the point where they are now able to receive and process BNPL data in a fair and balanced way. Klarna will share purchases settled on time, late payments and unpaid purchases for Pay in 30 and Pay in 3 orders made in the UK. This includes payment made using in-app shopping and instore. This will give the UK financial industry greater visibility on the use of Klarna’s BNPL products, help to improve affordability assessments, and means Klarna consumers who make payments on time will see long-term benefits, showing lenders they use credit responsibly.
7. <https://www.clearpay.co.uk/en-GB/clearpay-policy> - Clearpay is built on a different business model which puts customers first. This includes: Small, discrete transactions – assessment is made at every purchase (rather than a blank line of credit); Short repayment cycles resulting in small outstanding values; Profit is generated from merchant fees – not customer fees; Customer accounts are suspended immediately if there is a missed payment; The product is interest-free and where late fees apply they are capped; Never harm a customer’s credit profile; Never enforce customer debt; A customer paying on time is better for our business than one paying late; Increased limits only occur if there is positive repayment history; Industry leading low default rates and over 90% of global monthly transactions come from repeat customers.