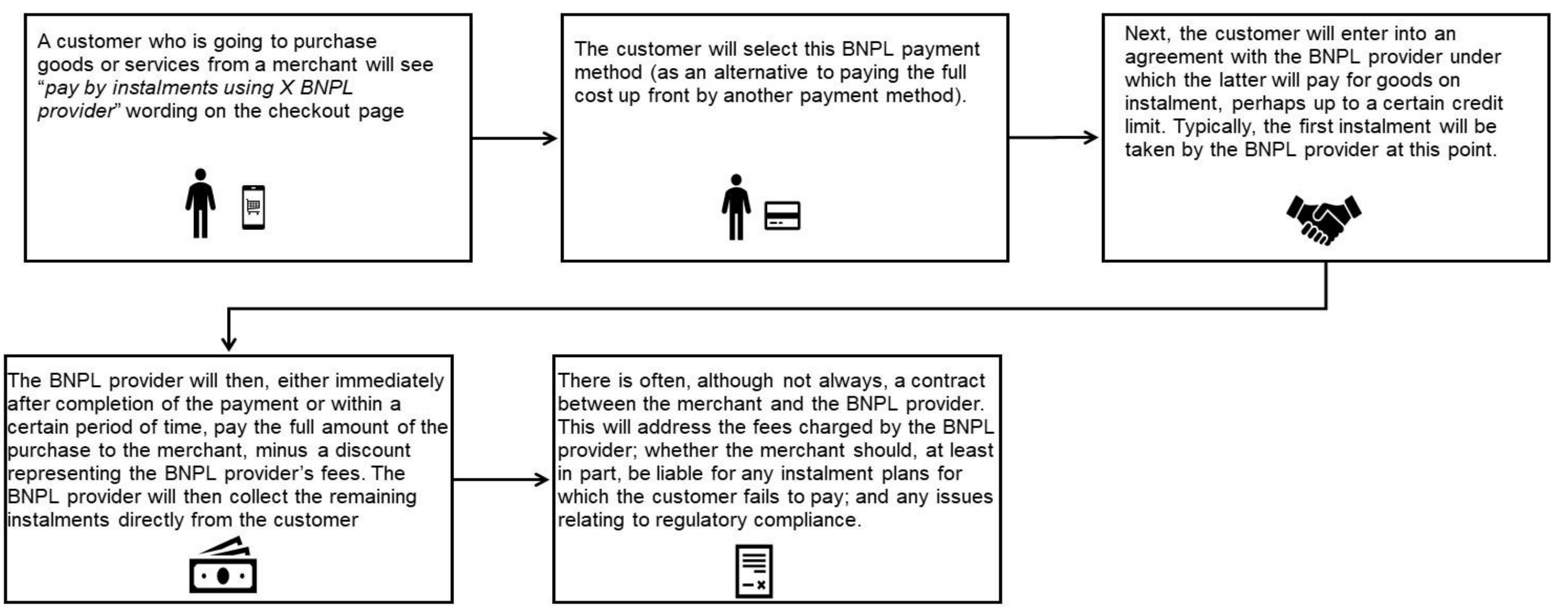
## Buy Now Pay Later

*What is Buy Now Pay Later (BNPL)?*

BNPL allows a customer to pay for goods or services on a deferred basis. This typically means that a customer pays for the goods or services over one or more instalments (for example, splitting the cost of a $1000 phone into five instalments of $200), often without paying any more than if they had paid for the goods or services immediately. It is appealing to merchants as they may achieve higher sales by attracting customers who could not, or would not, purchase the goods or services if they had to pay the full amount in one transaction.

*How does BNPL work?*

There are a few different models for BNPL products, but for the purposes of this paper we are referring to a model where a merchant works with a third-party provider (BNPL provider) who provides the BNPL service to the customer and that BNPL provider assumes (at least some of) the credit risk. This model can be set up in different ways but - ultimately - it is the BNPL provider, and not the merchant, who is providing the BNPL solution to the customer. See the example below.





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*Regulatory concerns relating to BNPL*

As these arrangements have become increasingly popular (with both merchants and customers), the widespread adoption of BNPL has led to increasing regulatory scrutiny. This is because BNPL models involve the provision of credit (as financing from the BNPL provider enables the customer to pay later than they otherwise would), but in some jurisdictions they fall outside the scope of different regulatory regimes, particularly consumer credit regimes, and thus may be unregulated.

Concerns include:

- customers have a tendency not to view BNPL as a form of borrowing and so do not see the risks associated with credit provision and the consequences if they are not able to make repayments[1];
- often BNPL is provided as the default payment method on a merchant's website, providing a lack of friction that allows customers to enter into a BNPL credit agreement easily and, sometimes, without thought;
- proper affordability checks are often not carried out by the BNPL provider;
- spending limits, if set, are inconsistent in the sector;
- there is typically not enough information on the consequences of non-payment. Cancellation and late payment fees/charges charged, if payments are missed, can be high in proportion to the goods purchased[2]; and
- the arrangements, including marketing and advertising, are typically designed with the purpose of increasing sales for merchants, which is not necessarily in the interests of customers.

***DFSA position***

**Carrying on a business of providing credit in or from the DIFC requires a licence from the DFSA. DFSA-regulated firms are not permitted to provide credit to retail clients[3] when carrying out their business in or from the DIFC. The only exception to this rule is where the client is another business, and the credit is provided for the purposes of that business. Therefore, a person wishing to provide BNPL services in or from the DIFC will need a licence from the DFSA and will be restricted as to the retail clients to whom they may provide the service.**

**Only DFSA Authorised Firms are permitted to provide financial services in or from the DIFC. If you are unsure of the regulatory status of a company, please check the DFSA's**

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1 https://www.citizensadvice.org.uk/about-us/our-work/policy/policy-research-topics/debt-and-money-policy-research/buy-nowpain-later/

2 Although this is not universally the case; BNPL providers approaches can vary significantly.

3 The only exception to this rule is where the retail client is an undertaking (i.e., a business) and the credit is provided for a business purpose.

**Public Register before entering into any financial services activity with that company. The DFSA also publishes consumer alerts on scams and firms falsely claiming to be an Authorised Firm on its Alerts page.**