



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Mr Christopher Woolard
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

28 January 2021

Dear Chris,

Buy-Now-Pay-Later

Thank you for your letter of 19 January setting out the recommendation from your forthcoming review into change and innovation in the unsecured credit market that the Treasury should legislate to bring currently unregulated, interest-free Buy-Now-Pay-Later activity into the scope of Financial Conduct Authority (FCA) regulation.

Over the course of the past few years, the Buy-Now-Pay-Later market has grown in the UK becoming a regular choice for online shoppers wanting to defer or spread the cost of a purchase. With the rapid rise of e-commerce that has occurred following the closure of high street shops during the COVID-19 restrictions, unregulated Buy-Now-Pay-Later has quite rightly risen up the agenda and become an important area to scrutinise.

In your letter you outline the key areas in which detriment may develop as these products embed themselves in the market. I agree with your assessment that without intervention, this market could develop in a way that is not in the best interests of consumers or the wider credit sector. I am particularly conscious about the concerns that you raise on affordability assessments, and the potential impact that the lack of visibility of Buy-Now-Pay-Later on credit files may have on other lenders in their ability to make their own affordability assessments. Given these growing concerns and the recognition that gaps exist in the regulatory framework, it is therefore right that the Government takes swift action to bring these products into regulation before potential detriment is able to occur.

These products, when used appropriately, can bring benefits to consumers and so it is right that we act in a proportionate manner when regulating. Given that unregulated Buy-Now-Pay-Later products are interest-free, they are inherently lower-risk than many other forms of credit and they can also be a useful tool for

managing personal finances and smoothing out the cost of bigger purchases. Regulation of Buy-Now-Pay-Later products should therefore be balanced to ensure it provides consumers with the protections to counter the potential detriment you identify, but without damaging their fundamental utility in the process. Similarly, it is important that regulating Buy-Now-Pay-Later does not unintentionally bring other low-risk, day-to-day business activities that use the existing exemption for short-term payment deferral, such as gym membership and sport season ticket providers, into regulation. To achieve this balance and to ensure regulation is effective in our aims, it is right to take into account the views of consumers, providers and retailers through a formal consultation process in order to understand the impacts that this regulation could have.

My officials are working with the FCA to assess the policy and legislative options for the Government to achieve a balanced and proportionate approach to regulation and I intend to take forward the necessary legislation as a matter of priority. I would welcome continued engagement between the FCA and my officials as work progresses at pace to ensure timely and appropriate outcomes for consumers, Buy-Now-Pay-Later providers, the retailers that offer the product as a payment option, as well as the wider consumer credit market.

I look forward to the review's publication in due course.

I am copying this letter to Charles Randell CBE and Nikhil Rathi.

A handwritten signature in black ink that reads "John P. Glen" with a stylized flourish underneath.

JOHN GLEN