FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP25/23***

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

July 2025

How to respond

We are asking for comments on this Consultation Paper (CP) by **26 September 2025**.

You can send them to us using the form on our website.

Or in writing to:

Consumer Finance Policy Team
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Email:
cp25-23@fca.org.uk

This Consultation Paper sets out our approach to the regulation of Deferred Payment Credit (DPC), which has been more commonly known as Buy Now Pay Later (BNPL).

DPC refers to an interest-free credit product, repayable in 12 or fewer instalments in 12 months or less and which is currently exempt from regulation.

We refer to the product as DPC as this is the name given to it in the legislation that will bring it into regulation.

In addition, we already have rules for other regulated credit agreements with 'buy now pay later offers', for which we use the term BNPL. These are distinct from DPC.

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- an account of the representations we receive, and
- an account of how we have responded to the representations.

In your response, please indicate:

- if you consent to the publication of your name. If you are replying from an organisation, we will assume that the respondent is the organisation and will publish that name, unless you indicate that you are responding in an individual capacity (in which case, we will publish your name),
- if you wish your response to be treated as confidential. We will have regard to this indication, but may not be able to maintain confidentiality where we are subject to a legal duty to publish or disclose the information in question.

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Chapter 1

Summary

Why we are consulting

1.1 On 14 July 2025, the Government legislated to bring Deferred Payment Credit (DPC) lending under our regulation. DPC (often called Buy Now Pay Later) refers to interest-free credit which finances the purchase of goods or services and that is repayable in 12 or fewer instalments within 12 months or less.

1.2 From 15 July 2026, lenders who offer a DPC agreement to finance the purchase of goods or services from a merchant (third-party lenders) will come under our regulation. Merchants that offer their own DPC agreements directly will not.

1.3 We are now consulting on rules and guidance for the DPC sector. This includes proposals for firms to give information to consumers and undertake creditworthiness assessments, and whether we should apply existing rules for regulated credit activity to this sector.

1.4 DPC lending has grown from £0.06bn in 2017 to over £13bn in 2024. According to our 2024 Financial Lives Survey (FLS), 20% of UK consumers (10.9 million adults) used DPC in the 12 months leading up to May 2024.

1.5 When they work well, DPC products give consumers access to credit that is affordable and offer a convenient way to spread payment for goods and services. DPC lenders also support consumption in the economy, which can in turn contribute to economic growth.

1.6 DPC is currently exempt from regulation. Lenders who only provide DPC do not currently need to be FCA authorised. There are concerns that this may result in borrowers not getting sufficient information about DPC agreements. There are also concerns DPC borrowers may not be able to afford it, particularly as they are more likely to be in financial difficulty compared to the general population.

1.7 In line with our Strategy, our approach seeks to help consumers navigate their financial lives whilst supporting sustained economic growth. Our proposals aim to ensure that DPC borrowers get the right information, in the right way and at the right time, which helps them to make good decisions. We want DPC lending to be affordable, and to make sure firms give borrowers in financial difficulty appropriate support.

1.8 We also want to be proportionate, relying on the Consumer Duty (the Duty) where possible, rather than introducing new rules. We also don't want to impose undue burdens on DPC business models.

1.9 We already authorise and regulate some DPC lenders that offer other regulated activities. Those which are not currently authorised for consumer credit activities will need the relevant permissions if they want to continue offering the product. The Government has legislated for a Temporary Permissions Regime (TPR) to allow firms to continue operating while we consider their application for the necessary permissions. This consultation sets out our proposals for the TPR.

1.10 Lenders who want to continue to offer DPC from 15 July 2026 will either need to be authorised for the relevant consumer credit activities or have temporary permission. If not, they must stop their DPC activities that will be subject to regulation, although firms that are not authorised or do not have a temporary permission will continue to be able to service DPC agreements that were taken out prior to 15 July 2026. This means there is a relatively short timeframe to construct a regulatory regime for DPC, and for firms to prepare for regulation. So, we want to finalise the regime as soon as possible, to give firms time to make the necessary changes to their businesses. We therefore urge firms and other stakeholders to engage with this consultation, as well as the relevant process for the TPR. We have also begun to engage proactively with DPC lenders.

1.11 The Government's original policy position – reflected in the current legislation – was that merchants who broker DPC agreements and who are classed as domestic premises suppliers would be brought into regulation as regulated credit brokers. Domestic premises suppliers are businesses who sell, offer to sell or agree to sell goods or offer to supply or contract to supply services in people's homes. However, the Government has since announced its intention to make amending legislation to ensure that such businesses remain exempt from regulation. The Government expects the amending legislation to be in place to coincide with the regulation of DPC.

1.12 We are therefore consulting on the basis that all broking of DPC agreements will remain exempt.

What we want to change

1.13 We want to create a regulatory regime for DPC that reduces the risks of harm to consumers. We want to be proportionate, so that the DPC market can continue to innovate and grow sustainably, and that consumers can still access DPC where appropriate.

Information requirements

1.14 We want to make sure that consumers are given information that helps them make effective, timely and informed decisions about DPC borrowing before they enter an agreement, and throughout the life of the agreement. This also applies where a customer misses a payment or otherwise faces financial difficulty.

Creditworthiness

1.15 We want DPC lending to be affordable. This consultation sets out how we intend to apply existing rules and guidance on creditworthiness to DPC. We want firms to do proportionate creditworthiness assessments, so that borrowers can keep up repayments without harming their financial wellbeing.

High-level standards and our existing consumer credit rules

1.16 We want the firms who offer DPC to operate to high standards and act to deliver good outcomes for consumers. This consultation covers how we intend to apply our existing high-level standards to DPC, including the Duty. We also explain where and how we propose our existing rules for consumer credit firms will apply to DPC.

Dispute resolution

1.17 We want DPC consumers to have access to an independent, impartial dispute resolution service. This consultation sets out how we propose firms must meet our complaints handling rules and how consumers will have access to the Financial Ombudsman Service (the Financial Ombudsman) to escalate complaints.

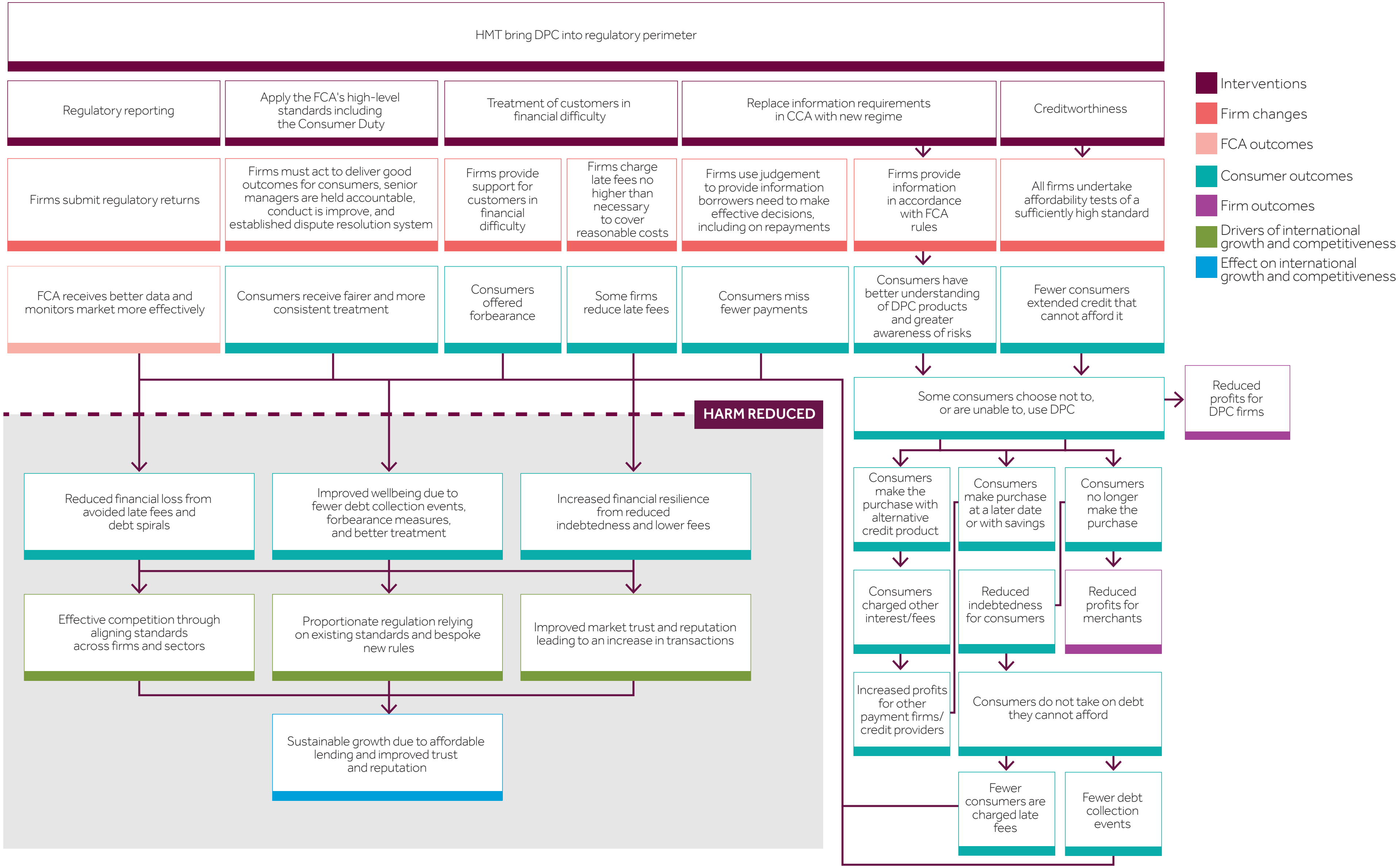
Data reporting

1.18 As we do not currently regulate the sector, we do not routinely receive data from firms about their DPC activity. We want better and more up-to-date information about the DPC sector and customer outcomes to ensure we can regulate efficiently and minimise burdens caused by bespoke data requests. This consultation includes proposals on the data that DPC lenders will report to us so we can effectively supervise them, including Product Sales Data (PSD).

Outcome we are seeking

1.19 The causal chain below shows the outcomes that we want to achieve:

Figure 1: Causal chain



1.20 We want consumers to be:

- Given information that equips them to understand their obligations, rights and protections under a DPC agreement.
- Able to understand the potential risks of the DPC product.
- Able to borrow sustainably and affordably, miss fewer repayments and consequently be charged fewer late fees.
- Given appropriate support if they are approaching, or are in, financial difficulty.

1.21 We want firms to continue to be able to offer the product widely so that it can be accessed if lending is sustainable. We also want to encourage firms to innovate and compete effectively in the interests of consumers.

Measuring success

1.22 We expect to see benefits to consumers such as improved wellbeing from avoiding arrears and debt collection events, and better treatment when in financial difficulty. We discuss benefits to consumers in more detail in Annex 2: Cost Benefit Analysis (CBA).

1.23 We will support firms to implement our proposed regime. We will also carry out multi-firm supervisory work to understand how our new regulation is working.

1.24 To measure success, we will:

- Monitor the impact of our proposals using data from a variety of sources including the FLS, regulatory returns such as PSD from firms, supervision and authorisation activities.
- Review data on firm and Financial Ombudsman complaints to understand how firms have implemented these proposals and how they are affecting consumers.
- Monitor how our proposed rules interact with the Duty in practice.

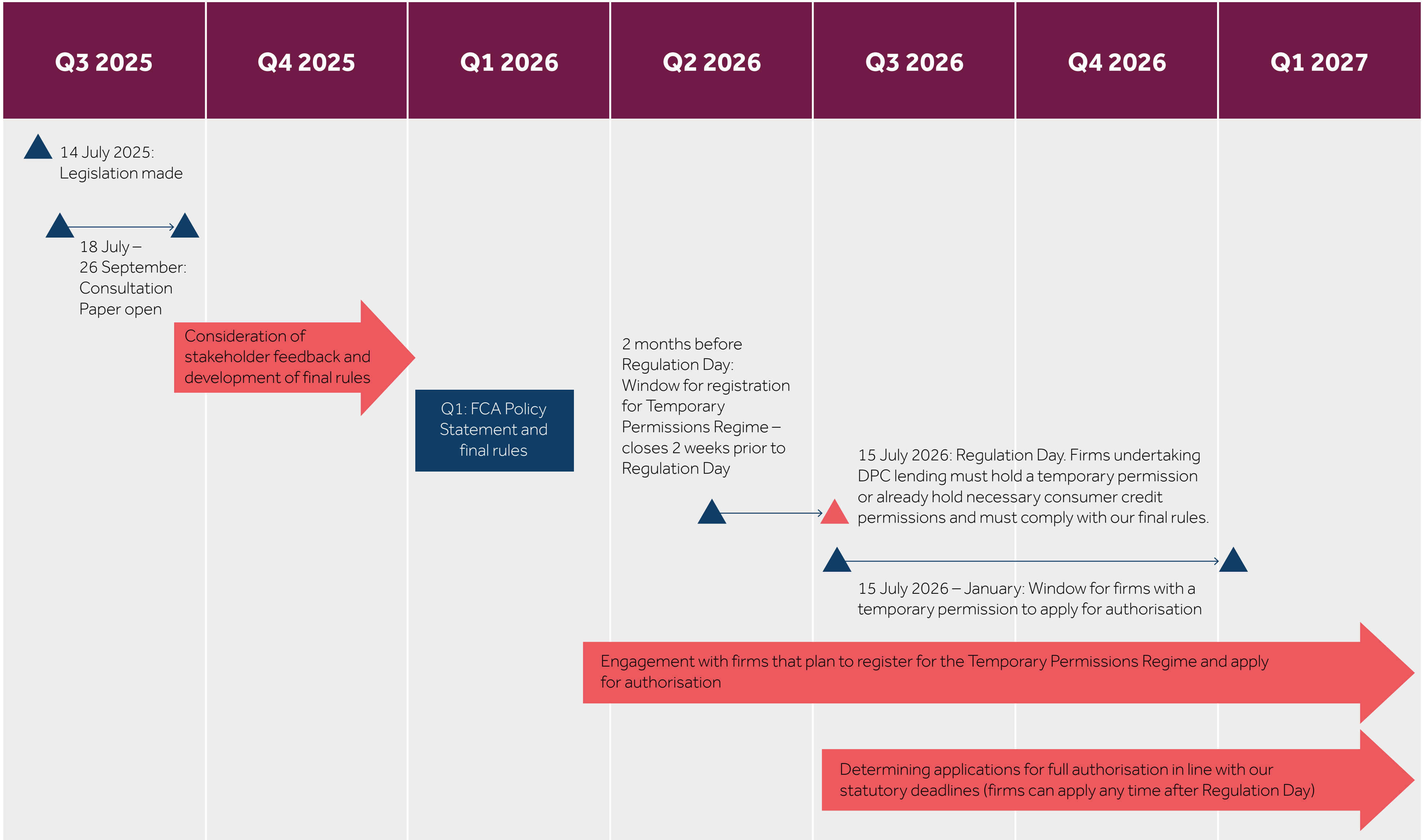
Next steps

1.25 We welcome feedback on the draft rules and questions included in this consultation by 26 September.

1.26 We will continue to engage with DPC lenders, consumer organisations and other stakeholders through the consultation process.

1.27 We plan to issue a Policy Statement (PS) with final rules in early 2026. Regulation will go live on 15 July 2026 (Regulation Day).

Timeline for regulation



Chapter 2

The wider context

2.1 DPC can be a useful product for consumers. When it works well, it provides consumers with a way to budget and to pay for goods and services over time without incurring interest. It can also create smoother e-commerce customer journeys, for example allowing consumers to try products before they buy them. Because it is interest-free, it can be a more affordable way of borrowing than other credit products.

2.2 It also provides benefits to merchants who can offer consumers additional ways to pay, which may allow consumers to purchase more than they otherwise would if required to pay up front and in full.

2.3 As it is currently unregulated, lenders that offer DPC, and brokers who carry out credit broking in relation to DPC products, do not have to be authorised nor comply with most of the requirements of the Consumer Credit Act (CCA) or our rules. Given the potential risks of harm, along with recent growth in the market, the Government has legislated to bring DPC lending into regulation.

2.4 Third-party lenders who offer the product will need to become authorised and comply with our rules and the applicable provisions of the CCA. Our proposals would also affect any Gibraltar-based firm passporting into the UK to undertake DPC activities. Any such firm would need to comply with the relevant Handbook provisions relating to DPC activities.

2.5 In its consultation on draft legislation, the Government referred to what the 2021 Woolard Review identified as potential risks of harm from DPC, including:

- How the product is promoted to consumers and presented as a payment option.
- Misunderstanding of the product by consumers, including the absence of information given to consumers about the features of the agreement.
- The absence of any requirements to conduct affordability assessments.
- The potential to create high levels of debt.
- Inconsistency of treatment of customers in financial difficulty.

2.6 To tackle the potential risks of harm for DPC, the Government set out 5 principles for its approach to regulation:

- Consumers must have access to simple, clear, understandable and accessible information.
- Consumers should have protection when things go wrong.
- Consumers should only be lent to if it is affordable.
- Regulation should be proportionate to ensure continued access and choice.
- Regulation must be introduced urgently.

2.7 We already regulate most consumer credit products. As a result, we have a suite of rules for consumer credit firms in our Handbook. These rules are designed to complement the statutory conduct requirements that exist in the CCA and secondary legislation made under it.

2.8 In order to deliver a proportionate regulatory regime that delivers good outcomes for consumers, the Government decided not to apply all CCA requirements to DPC, for example those in relation to disclosure requirements. So, we have carefully considered how we can make sure our regime delivers appropriate consumer protection in the absence of those CCA requirements, whilst also being proportionate. As part of this, we have considered our existing rules for consumer credit, and the extent to which the Duty would be sufficient to deliver an appropriate degree of consumer protection.

2.9 This consultation sets out our proposed requirements for firms to provide information to customers at important stages of the customer journey.

2.10 This consultation also lays out our proposed approach to regulation more broadly: to proportionately mitigate the harms that have been identified for DPC, to align with the Government's principles for regulation, and to deliver against our statutory objectives.

How it links to our objectives

2.11 Due to the current absence of regulatory requirements for DPC, we want consumers to have an appropriate degree of consumer protection whilst supporting competition in the interests of consumers. We also want our regime to be proportionate and ensure that firms can continue to innovate.

2.12 We have discussed our approach with the Financial Services Consumer Panel, FCA Practitioner Panel, and FCA Smaller Business Practitioner Panel. Their input has helped shape our proposals. We plan to engage further with them prior to finalising rules.

Consumer protection

2.13 The principal reason the Government decided to bring DPC under our regulation was to secure an appropriate degree of consumer protection.

2.14 Central to our proposed framework is ensuring that DPC customers receive clear, timely and useful information that allows them to make informed decisions about their DPC borrowing. Our proposals contain appropriate rules that make sure consumers get the right information, in the right form and at the right time, giving firms flexibility to maximise consumer understanding.

2.15 We want firms to lend affordably. Our proposed approach will reduce the risk of unaffordable DPC lending, whilst giving firms flexibility in how they undertake creditworthiness assessments.

2.16 Consumers should have a mechanism to escalate complaints. Our proposals set out how consumers will have access to the Financial Ombudsman.

Competition

2.17 Our view is that the proposals will fulfil our competition duty while advancing our consumer protection objective. As DPC is currently unregulated, it enjoys some competitive advantages over regulated credit products (for example relating to requirements to present certain information to borrowers or undertake creditworthiness assessments). When it becomes regulated, these competitive advantages will reduce.

2.18 We anticipate our proposals will support competition in consumers' interests by providing a robust regulatory framework for firms. Our proposed regime will mean that DPC consumers will have a better understanding of DPC products. Such transparency could in turn afford consumers more choice and act as a driving force for firms to innovate and compete to offer new and better products.

2.19 The Government's approach to regulation of DPC will mean that some of the CCA's provisions will not apply to DPC as they do to other regulated consumer credit products. This means that when DPC becomes regulated, lenders may be able to implement smoother customer journeys that may be less burdensome compared to other regulated products.

2.20 We know this may mean that DPC continues to have some competitive advantage over other regulated products. However, we have tried to ensure that our approach does not hinder competition whilst advancing our consumer protection objective.

2.21 Our approach to DPC seeks to align with rules already in place for other forms of regulated fixed-sum credit, where necessary and appropriate.

2.22 In addition, the Government has published a consultation on proposed reform of the CCA. The Government has proposed repealing the CCA's information requirements and associated sanctions for the wider consumer credit regime, so that we will be responsible for creating a conduct regime in our Handbook. Our approach to DPC regulation is not intended to determine the direction of CCA reform. As the Government continues its work on the revised regime, we will consider what new rules we will make, and where we can use the Duty, to make sure consumers are appropriately protected.

Secondary international competitiveness and growth objective

2.23 We consider our proposals advance our secondary international competitiveness and growth objective. We acknowledge that there could be a reduction in DPC transactions, for example as a result of firms needing to undertake creditworthiness assessments. This may lead to short-term reductions in consumption by limiting the indebtedness consumers take on.

2.24 However, by bringing DPC products into regulation in a proportionate way, we hope to deepen consumers' trust and confidence in this market. We think that some consumers may be more willing to use DPC products, as they will enjoy the protections that will come from it being regulated. This will also ensure that lending is sustainable and limit the risk of future downturns from overindebtedness, leading to sustainable growth.

2.25 In addition, we think that our proposals will provide regulatory certainty, whilst also ensuring that firms can innovate and compete both within the sector and with other regulated credit products. We anticipate that our approach will mean that DPC will still be widely available, while ensuring lending is sustainable, potentially supporting growth in the real economy. While our proposals will involve material costs for firms, we consider that they will also give rise to substantial benefits, as set out in our CBA.

2.26 We believe that our proposals are proportionate to the risks involved. We propose rules that are tailored to this market where appropriate, including the Duty, to create increased transparency while giving firms flexibility in how they engage with consumers. Our proposals seek to level the playing field where appropriate with other types of credit products which could boost innovation and competition.

Wider effects of this consultation

CCA reform

2.27 Along with the response to its consultation on DPC regulation, the Government published a consultation on CCA reform. This asks for stakeholders' views on its proposed policy positions on the CCA's information requirements and associated sanctions, as well as the CCA's criminal offences.

2.28 The Government has recognised that some of the issues involved in CCA reform overlap with those it considered in its approach to DPC regulation. For example, the proposal to repeal the CCA's information requirements, with the FCA becoming responsible for creating a new information regime for all credit firms in our Handbook.

2.29 We will consider the impacts of our approach on the DPC market, to help inform our future policy development as CCA reform progresses.

Unintended consequences of our intervention

2.30 We do not want to unintentionally or inappropriately restrict access to DPC. However, as set out in our CBA, there are indications that some DPC lending may not be affordable.

2.31 Therefore, applying our creditworthiness rules to DPC could mean that fewer consumers may be able to access the product or for consumers to access it less often. In some instances, lenders may be overly cautious in their creditworthiness assessments, resulting in loss of access for consumers who may have been able to afford a DPC agreement. This could potentially cause both lenders and merchants that broker the product to lose revenue. Consumers who lose access to DPC may turn to other credit products as a result or decide to forgo the purchase altogether.

2.32 We recognise that DPC can support consumption and therefore economic growth. However, for growth to be sustainable, the lending must itself be sustainable.

2.33 We do not consider it appropriate to remove risk entirely from DPC borrowing. We want to avoid the unintended consequence that lenders become overly risk averse and unduly limit their lending, reducing the benefits of consumer access. That is why our proposed approach to creditworthiness is proportionate and helps firms to use their own judgement.

2.34 Our other proposed interventions may also result in consumers taking out fewer DPC agreements. For example, our proposals on information requirements.

The Consumer Duty

2.35 Once regulation comes into effect, we propose that firms undertaking DPC activity will need to deliver against their obligations under the Duty. The Duty requires firms to act to deliver good customer outcomes. As part of this, firms should consider the needs of their customers, including those with characteristics of vulnerability, and how they behave, at every stage of the customer journey. In July 2022, we published guidance which set out how firms should comply with their obligations under the Duty.

2.36 The Duty also sets rules and guidance relating to 4 areas that represent key elements of the firm-consumer relationship: the governance of products and services, price and value, consumer understanding and consumer support.

2.37 We would expect firms to consider and comply with all relevant elements of the Duty. For instance, firms will need to consider the impact of late fees when assessing whether their products offer fair value in line with the price and value outcome. This is in addition to our rule in Chapter 7 of the Consumer Credit Sourcebook (CONC) that requires late fees to only reflect the firm's reasonable costs.

2.38 We are proposing that the Duty, in particular the consumer understanding and support outcomes, will be a core part of our approach to DPC regulation. We have carefully considered how far the Duty can deliver our policy objectives. However, we also want to make sure our approach aligns with rules already in place for other credit products, where the protections they provide are also necessary and appropriate for DPC consumers.

2.39 The Government's legislative approach means that some of the requirements of the CCA that typically apply to other regulated consumer credit products will not apply to DPC. We have considered the gaps that will result from those CCA provisions not applying and the appropriate degree of consumer protection necessary for DPC consumers. We then considered the appropriateness of applying our existing rules in CONC and assessed whether these rules, either alone or in combination with the Duty, or the Duty by itself could fill the gaps we have identified.

2.40 Our view is that some new rules and guidance are needed to make clear our expectations and reduce the risk of ambiguity for firms, such as around what information firms should provide or when they should communicate with a borrower. Without this certainty, we think there is a risk we could fail to reduce some of the potential consumer harm we have identified from DPC.

2.41 For example, the CCA requires firms to send information (with prescribed content and sometimes in a prescribed form) at certain points in the customer journey. Our existing rules and guidance in CONC relating to provision of information were designed to complement the CCA. Without the CCA's requirements, there will be no clear onus on firms to provide certain information to consumers at key points in the DPC customer journey where we have identified specific risks of harm.

2.42 We are not proposing to specify how firms should convey information. Instead, we will rely on the Duty's consumer understanding and support outcomes so that firms can communicate in a way that supports consumer understanding and helps them to make decisions that are effective, timely and properly informed. We want firms to maximise consumer engagement in a way best suited to the digital mediums through which the product is typically provided.

Environmental, social & governance considerations

2.43 We have considered our duty under section 3B(1)(c) of FSMA to have regard to the need to contribute towards the Secretary of State achieving compliance with the net zero target, in section 1 of the Climate Change Act 2008, and the Government's environmental targets, in section 5 of the Environment Act 2021. We do not think there is any contribution these proposals can make to these targets. We welcome your feedback on this and will keep it under review during this consultation and when considering any final rules.

2.44 Firms should note that the anti-greenwashing rule (ESG 4.3.1R) applies to all authorised firms. The rule requires that any sustainability related claims about a product or service must be consistent with the sustainability characteristics of that product or service, and must be fair, clear and not misleading.

Equality and diversity considerations

2.45 We have considered equality and diversity issues.

2.46 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other antidiscrimination legislation applies). But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

2.47 In the meantime, we welcome your input to this consultation on this and have provided the option to provide feedback on any equality and diversity issues.

Question 1: **Do you agree that our proposed rules will not have a material impact on groups with protected characteristics?**

Chapter 3

Conduct standards

3.1 This chapter sets out our approach to the key conduct standards that we propose applying to DPC lenders.

Consumer Credit Sourcebook (CONC)

3.2 CONC is an established set of conduct standards that are specific to consumer credit-related regulated activities. They build on our high-level principles, including the Duty. We believe it is important that these clear expectations apply to firms' DPC activity to protect consumers and promote effective competition between different consumer credit markets.

3.3 We explain our approach to information requirements and creditworthiness later in this chapter. We welcome views on whether the Duty alone would be sufficient to deliver our policy objectives rather than our proposed new rules and guidance.

3.4 Among the most important CONC sections are our expectations on how firms treat customers facing payment difficulties (CONC 7). CONC 7 should be considered alongside our proposed new rules later in this chapter on providing information to borrowers about missed repayments.

3.5 We want to make sure firms treat customers in, or approaching, arrears or in default with forbearance and due consideration. CONC 7 includes provisions on firms:

- Having clear, effective and appropriate policies and procedures for dealing with customers who are in or approaching arrears or in default, and treating customers with vulnerabilities fairly and appropriately.
- Giving customers appropriate forbearance and consideration based on their circumstances.
- Making sure that charges resulting from payment difficulties are only at the level necessary to cover the firm's reasonable costs.
- Communicating with customers and any third parties.
- Not taking disproportionate action against customers in arrears or default.

3.6 We strengthened these protections last year and these rules and guidance came into effect in November 2024.

3.7 Table 1 below summarises other key existing CONC chapters and rules relevant to DPC activities. It is not a comprehensive list and DPC lenders should familiarise themselves with the detail of CONC and what it requires. We also set out where we propose to tailor our approach for DPC lenders, for example by amending or disapplying specific requirements.

Table 1: Key existing CONC chapters and rules relevant to DPC

CONC 1	Application and scope provisions, including guidance for firms on how to deal with customers in financial difficulties (CONC 1.3).
CONC 2	General conduct of business standards, including remuneration (CONC 2.11). However, some of these provisions are unlikely to apply to DPC in practice given current business models. For example, CONC 2.3.5R on credit card cheques. To avoid duplication, we have disapplied distance marketing provisions (CONC 2.7) for DPC. This will also mean that cancellation rights in CONC 11 will not apply – but, consumers will have recourse to withdrawal rights under section 66A CCA.
CONC 3	Financial promotions and communications with customers
CONC 6	Post-contractual requirements, including the need to monitor customers' repayments for signs of actual or possible repayment difficulties (CONC 6.7.2R).

3.8 We have also proposed further clarifications to some CONC provisions given the legislative disapplication of some sections of the CCA as set out in the Draft Handbook text in Appendix 1.

Information requirements

3.9 As set out in paragraph 2.8, when DPC becomes regulated, certain CCA requirements relating to provision of information will not apply. We are therefore responsible for creating a regime for the information that firms should provide to DPC borrowers. We do not propose to replicate these CCA provisions. Instead, our proposals seek to deliver a proportionate regime that is tailored to DPC.

3.10 Before entering a DPC agreement, we want consumers to understand what their obligations will be, the potential risks of the product, what rights they will have, and their protections.

3.11 We want consumers to be able to understand the status of agreements and be alerted when something happens which could harm their financial situation.

3.12 Our proposed new rules and guidance primarily cover the information DPC lenders should give to consumers, and where the CCA's disapplication will result in substantive gaps and potential ambiguities.

3.13 We are proposing:

- New rules to require DPC lenders to disclose certain information before a consumer takes out a DPC agreement.
- New rules requiring firms to communicate with a customer when they miss a DPC repayment, or when the lender intends to take certain action against them.
- New guidance to remind firms of their obligations under the Duty.

DPC product information

3.14 Disclosing information to customers before they enter a credit agreement helps them to assess whether the product is suitable for their needs. To do so, we think it is necessary for key pieces of information to be provided to them.

3.15 For most non-DPC regulated credit agreements, the CCA has requirements for firms to provide pre-contractual information in a prescribed form. The CCA also requires a regulated credit agreement to contain prescribed content.

3.16 In addition to these requirements, our rules in CONC 4.2 require firms to provide a pre-contractual adequate explanation of certain matters. This allows the customer to assess whether an agreement is suitable for their needs and financial situation. CONC 4.2 is less prescriptive than the CCA's requirements and was designed to work alongside them.

3.17 Stakeholders previously raised concerns that the CCA's requirements on pre-contractual information and the content of agreements would be disproportionate for DPC agreements and ill-suited to the typical DPC customer journey. As a result, the Government has decided the CCA's provisions on pre-contractual information and the form of agreements will not apply to DPC when it becomes regulated.

3.18 As DPC is not yet regulated, the resulting absence of regulatory requirements on provision of information might result in a lack of:

- Sufficiently clear information, which limits consumers' ability to decide whether a prospective agreement is right for them.
- Consumer understanding about their obligations at the start of the customer journey. This can lead to confusion and problems further down the line (such as late fees, or negative information being reported on a credit file).
- Knowledge of rights and protections, including how they can access them.
- Appropriate friction. While this enables quick entry into agreements, it can potentially mean consumers are given little opportunity to reflect on the information given to them.

3.19 DPC agreements are typically entered into quickly and online. Compared to some other credit products, they are also relatively simple, being interest-free and with short, fixed repayment schedules. There is also a higher incidence of repeat use of DPC compared to other fixed-sum credit products, meaning some consumers will be more familiar with them.

3.20 There is usually little time between a customer choosing DPC as a payment option and entering into the agreement. Information is typically given cumulatively in a relatively short customer journey, with pre-contractual and contractual phases not always separately identifiable.

3.21 Our analysis of DPC lenders' current customer journeys has identified some practices which may help consumer understanding. This includes the use of infographics to convey information, which may help consumers to quickly understand repayment amounts and schedules. Firms also often use layering, where key information is provided upfront with cross-references or links to further detail. Layering, when delivered appropriately, can increase consumers' engagement with information.

3.22 However, we have also identified potential issues with some current DPC customer journeys. This includes:

- Benefit framing, where firms emphasise the potential benefits of the product and downplay the risks.
- Anchoring, where firms use consumers' behavioural biases to emphasise information that the customer gets earlier on, and present information on risks later when a consumer may have already committed to using the product.
- Obscuring information, where firms may include important information about possible adverse consequences in optional parts of the customer journey or present it less prominently in the steps consumers must follow.

3.23 This means consumers can enter DPC agreements without fully understanding the risks. For example, our 2024 FLS data shows that 23% of DPC users did not know that they had to pay a fee if they missed a repayment.

3.24 To deal with those risks, we want consumers to:

- Understand the key terms of the proposed agreement and their obligations. They should be given an opportunity to consider and reflect on the information before making a final decision. This will help consumers to decide whether the product is suitable for them, and reduce the risks of missed repayments and other unexpected events which could have negative consequences for the borrower.
- Know about their rights and the protections under a DPC agreement, and how to exercise them.
- Be able to refer back to their DPC agreement in a simple and accessible way.

3.25 We propose requiring DPC lenders to disclose relevant information before a customer enters an agreement, allowing the customer to make an informed decision about whether the product is suitable for them and to properly assess the risks.

3.26 We want to be proportionate. We want to make sure there is an appropriate amount of friction in the customer journey, and that consumer understanding can be maximised via the channels through which DPC is typically taken out.

3.27 So, we do not think that a policy approach that tries to reproduce the CCA's requirements on disclosing information at both the pre-contractual and contractual stages would be either proportionate or conducive to maximising consumer engagement and understanding. Instead, our approach seeks to make sure that certain information is provided, or made available, to a borrower before they enter into a DPC agreement. We do not propose imposing requirements relating to the content or form of DPC agreements themselves.

3.28 As well as this specific key information, we think consumers should also have information about their rights and protections when they use DPC.

3.29 So, we propose that before a consumer enters an agreement, firms should:

- Proactively give a customer certain information in a prominent way (the '**key product information**').

- Give, or make available, other specific pieces of information to a customer (the '**additional product information**').

3.30 We do not think that relying on our rules about adequate explanations in CONC 4.2 would be appropriate. CONC 4.2 on its own, or in combination with the Duty, would not give firms sufficient clarity on what key information they should provide. We are proposing that CONC 4.2 should not apply to DPC, with DPC lenders instead needing to comply with our proposed new rules.

3.31 We also want there to be some flexibility so that firms can tailor the way information is provided, using the digital mediums through which DPC is typically offered to devise innovative and engaging methods.

Key product information – information that should be given to a customer

3.32 We propose that firms should provide the following information to a customer before entering a DPC agreement. This information must be presented proactively to a consumer, so the consumer does not have to take any steps to see it (for example by clicking on a link).

- The rate of interest (stating that it is 0%).
- The amount of credit to be provided under the agreement.
- The number and frequency of payments to be made under the agreement (with, where known, specific dates).
- The amount of each payment to be made under the agreement.
- The cash price of the goods or services being bought with finance under the agreement.
- The principal consequences of missing payments. This includes:
  - The circumstances in which charges for late or missed payments will be applied, and where relevant the amount of those charges.
  - The risk of impaired credit rating and its possible effect on a customer's future access to, or cost of, credit.
- Whether a firm will undertake a search at a credit reference agency (CRA) before deciding whether to proceed with an agreement.
- The existence of any of the following, and direction to where more detail can be found in the additional product information.
  - Withdrawal or cancellation rights
  - Early repayment rights
  - The right to refer a complaint to the Financial Ombudsman
- (If relevant) an adequate explanation of what a continuous payment authority is and how it works, and the fact that further explanation is given in the additional product information.

3.33 We are not proposing rules on the form and content of DPC agreements themselves. It will be for firms to decide how they deal with the contractual terms and conditions. However, if a firm chooses not to give contractual terms and conditions to a consumer before they enter an agreement, our rules will require it to make consumers aware of the existence of any other contractual terms and conditions and how to access them in the key product information.

Additional product information – information that should be given or made available to a customer

3.34 We propose that firms must either give, or make available, the following information to a customer before they enter a DPC agreement. This is information that firms would need to make sure customers can access easily, but which does not have to be proactively given to a consumer during the customer journey if a firm does not want to do so.

- The identity of the lender and the merchant/broker.
- Further detail on any of the 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), (where relevant) how exercising those rights interacts with returns of goods to merchants, how to make a complaint and how to escalate a complaint to the Financial Ombudsman.
- Further detail on the potential consequences of the consumer missing payments, which is likely to include the full suite of potential actions a firm may take, and an explanation of how the customer can avoid those consequences.
- An explanation of the protections available under section 75 of the CCA (or section 75A where applicable).
- (If relevant) An adequate explanation of further information about a continuous payment authority, including:
  - How it will be applied, how it can be cancelled, whether alternative repayment options are available, the consequences if sufficient funds are not available on the due date, whether further attempts may be made to collect payment and the basis on which those further attempts would be made.
- The contractual terms and conditions.

Obligations under the Consumer Duty

3.35 Instead of proposing specific requirements for presenting product information, we propose to introduce guidance linked to these new rules and the Duty. In particular, that firms should consider how they communicate with their customers and seek to provide information in a way that best supports customer understanding.

3.36 Our proposed rules aim to ensure that customers are given important information about the risks of the product. However, under the Duty, firms' communications must equip DPC customers to make effective, timely and properly informed decisions. Communications should meet the information needs of their retail customers while not overloading them with too much information, and communications must be likely to be understood by retail customers. Under the Duty, where appropriate, DPC lenders will need to monitor and test their communications to demonstrate they have acted to deliver this outcome and support their customers. Where this is not the case, the firm must take action to deal with the situation.

3.37 Other Duty rules might also be relevant here. For example, the Duty has 3 cross-cutting obligations that apply to all of a firm's conduct, including when communicating with consumers. These require firms to act in good faith towards consumers, to avoid causing foreseeable harm to consumers, and to enable and support consumers to pursue their financial objectives. There is also a requirement for a firm that manufactures a product to specify a target market for it and ensure it meets the needs, characteristics and objectives of the target market, including for customers with characteristics of vulnerability. Firms must also regularly monitor to determine whether their retail customers have been sold products which are designed to meet their needs, characteristics and objectives. Where this is not the case, the firm must take appropriate action.

Requirement to provide product information and a copy of the agreement in a durable medium

3.38 It is important that a borrower has an enduring record of the product information, so they can refer back to it and understand their obligations, rights and protections.

3.39 So, we propose a requirement for firms to give a consumer both a copy of the agreement and the key and additional product information in a durable medium immediately after a DPC agreement has been entered into. We have provided clarification of the meaning of durable medium, which includes non-paper based forms of media which:

- Enable the recipient to store information addressed in a way that is accessible for future reference and for an adequate period of time (storability); and
- Allows the unchanged reproduction of the information stored (reproduction).

3.40 Our rules will not require a firm to provide the product information after an agreement has been entered into if this information is included in the copy of the agreement.

Guarantor DPC lending

3.41 We are not aware of any firms currently undertaking DPC lending which involves a guarantor. However, firms may wish to do so in the future. To account for this, we propose that where a DPC agreement involves a guarantor, a firm must give the guarantor an adequate explanation of the following before the agreement is entered into:

- The circumstances in which the guarantee (or indemnity, or both) might be called on.
- The implications for the guarantor if the guarantee (or indemnity, or both) is called on.

3.42 We also propose that firms should give the guarantor any of the required product information they provide to the borrower under our proposed rules, which the firm thinks necessary for the guarantor to understand these explanations and to make an informed decision about acting as a guarantor.

3.43 Where a security is required (which could include a guarantee), the CCA's requirements on security will apply to DPC. So, for the security to be effective a firm would also need to provide:

- A security instrument in the prescribed form and signed in the prescribed way, in compliance with section 105 CCA and the Consumer Credit (Guarantees and Indemnities) Regulations 1983.
- A copy of the security instrument and executed DPC agreement in the prescribed timelines, in compliance with section 105 CCA.

DPC agreements taken out orally at a distance

3.44 The majority of DPC transactions take place online. However, there are other scenarios where it will not be possible for a firm to give information about a DPC agreement in writing.

3.45 To account for this, we propose modified requirements on product information for DPC agreements that are entered into orally at a distance, such as over the phone. In this scenario, we propose that a DPC lender would be able to comply with our requirements on product information by giving:

- The key product information to the customer orally before the agreement is made, and
- Both the key and additional product information in a durable medium immediately after the agreement is made.

Payment Services Regulations

3.46 Some DPC business models may involve providing a payment service. In these cases, firms should consider whether they are required to disclose the relevant information as required by the Payment Services Regulations 2017.

Question 2: **Do you agree that our proposed rules for provision of information before entering a DPC agreement are appropriate?**

Question 3: **Do you think that reliance on the Duty could deliver our policy objectives for information provided before an agreement instead? If so, how?**

Information provided during an agreement

3.47 This section sets out proposals about the provision of information to borrowers during the life of a DPC agreement. It does not cover our proposals for communications to borrowers who have missed repayments or are in financial difficulty, which are covered in the next section.

3.48 We want consumers to be able to understand the status of their current DPC agreements, so that they know when repayments will be due and how much they still owe.

3.49 Our proposed rules on product information aim to give DPC borrowers a good understanding of their obligations from the start of an agreement, including when repayments will be due. Consumers will also have a copy of the product information in a durable medium.

3.50 However, even if a consumer has a good understanding of a DPC agreement when they take it out, some potential risks may reduce consumers' understanding of their current DPC agreements. These include:

- A higher likelihood of concurrent DPC usage (including borrowing from different lenders) compared to other fixed-sum personal loan agreements. This leads to higher risk of consumers losing track of individual agreements and when repayments are due, and thus a potentially higher risk of adverse events such as late fees being charged or negative CRA reporting.
- Some specific use cases of DPC see consumers buying multiple items, such as clothing, and then returning some or all of them. This means that some DPC agreements may be amended or cease to exist at all where goods are returned.

3.51 We want firms to consider how they can give their customers information, or make it available to them, which maximises their understanding to reduce these risks.

3.52 From our analysis of DPC lenders' current customer journeys, we have observed some practices that we think are likely to reduce some of these risks.

3.53 For example, some firms send repayment reminders, using email, SMS and push notifications, or a mixture. These reminders generally include information on the payment mechanism, the amount and when it will be taken.

3.54 Some firms provide information more passively. Major DPC lenders' business models revolve heavily around their apps, which they encourage their customers to use. These apps provide a smooth and accessible user experience, through which consumers can make purchases, access information about agreements, and manage them. Some firms provide information about the aggregate amount of outstanding agreements, which enables consumers to understand their total current indebtedness with a firm.

3.55 This is supported by evidence from 2024 FLS data which shows that 89% of DPC users found it 'very easy' or 'fairly easy' to keep track of repayments. However, FLS data also showed that those who owe £500 or more on DPC found it slightly less easy to keep track of repayments, with only 78% saying that they found it 'very easy' or 'fairly easy'.

3.56 There are also some DPC agreements that will be brought into regulation which do not present the same risks as the typical DPC model, for example a longer-term agreement for higher value goods or services. For these agreements, the consumer is less likely to take out concurrent agreements than more common DPC business models.

3.57 Given the range of DPC business models, we think that new rules for providing information during a DPC agreement which are not about missed repayments or financial difficulty would be disproportionate and unnecessary.

3.58 However, we are proposing guidance which reminds firms of their obligations on consumer understanding under the Duty.

3.59 Specifically, through our proposed guidance we want to encourage firms to make their own judgements, so that DPC borrowers should receive timely information at suitable points throughout the product's lifecycle which meets their needs, is likely to be understood, and equips them to make effective and properly-informed decisions. We also want DPC lenders to consider their target market and think about the specific nature of their products when communicating with borrowers during the course of an agreement.

Question 4: Do you agree that our proposed guidance for provision of information to customers during a DPC agreement is appropriate?

Information to DPC borrowers who have missed repayments

3.60 This section sets out our proposed policy on how firms should communicate with borrowers who have missed a repayment and when the firm intends to take certain action against a borrower.

3.61 We want firms to notify consumers when an event occurs during a DPC agreement that could have a negative impact on their financial wellbeing and could lead to their financial situation deteriorating.

3.62 We also want firms to give borrowers in, or approaching, arrears or default sufficient support, including providing forbearance and engaging with them, such as providing information about money guidance and debt advice.

3.63 The current lack of regulatory requirements on DPC lenders in relation to information leads to the following potential risks:

- Consumers are not given timely information about missed repayments, how the situation can be remedied, and the consequences if it is not.
- Borrowers may not have information about how to engage with a lender and seek forbearance, which can lead to their situation worsening.
- Borrowers may not have information about sources of support and debt advice to seek help and prevent their financial situation worsening.

3.64 To address those risks, we want lenders to:

- Give timely information when they identify a consumer is in or approaching arrears, or is in default.

- Inform customers as soon as possible after a missed repayment, giving sufficient information on the consequences and any steps the borrower can take to alleviate those consequences.
- Provide information that encourages the consumer to engage with the lender and give sources of free debt advice when the firm has identified that a consumer is approaching, or is in, financial difficulty, or where there has been an unexpected event such as a consumer missing a repayment.

3.65 The Government has disapplied the CCA's requirements for firms to send notices to customers in arrears or default, or when they intend to take certain action against a borrower. This means that, without any requirements in the Handbook, there would be no specific regulatory requirements that make it clear when firms should communicate with customers about these issues.

3.66 In paragraphs 3.4-3.6, we set out our proposals to apply our existing rules and guidance in CONC 7 to DPC. However, while CONC 7 has provisions on dealing with customers in or approaching arrears or in default, it does not contain specific requirements for firms to send information at certain trigger points. We also do not think relying on the Duty would be enough to ensure consumers get appropriate and timely information about events that could affect their financial wellbeing such as missed repayments. While the Duty sets high-level requirements, it does not mandate a standardised approach. We think rules are necessary to ensure a standardised approach across the DPC market, which is particularly important at a stage of the customer journey where consumers are more likely to face financial difficulty.

3.67 To ensure that consumers get information in this situation, and to give firms clarity, we propose new rules which specify when lenders should communicate certain important matters to DPC borrowers.

3.68 The proposed new rules for DPC will sit alongside the existing CONC 7 requirements we intend to apply to DPC.

3.69 Our proposed rules will require a firm to communicate with a customer as soon as possible after they have failed to make a contractual payment under a DPC agreement.

3.70 Our proposed rules will also require a firm to give a customer reasonable notice before it intends to take steps to terminate a DPC agreement or enforce a term of the agreement by demanding earlier payment of any sum, treating any right conferred on the debtor by the agreement as terminated, restricted or deferred, or enforcing any security.

3.71 We do not propose any requirements on how, or through what medium, a firm should make these communications.

3.72 Our proposed rules also do not generally prescribe the content of these communications, but for communications about missed repayments they do require firms to set out together the following:

- Information that enables the consumer to understand which DPC agreement a missed repayment communication refers to.

- A notification about any sums which have become payable under the agreement and remain unpaid (including late fees, and any late fees that remain outstanding from any previous missed repayments under that agreement).
- Any immediate or future adverse consequences for the borrower from missing the repayment and, where relevant, any steps the borrower can take to alleviate those consequences.

3.73 We want firms to use their own judgement on what these communications should contain, and how they are delivered, so they maximise consumer understanding and support in line with the Duty. Under the Duty firms must also test their communications where appropriate to identify if they are supporting good outcomes. PRIN 2A.5.12G has guidance on the factors firms should consider when deciding if testing is appropriate, including the scope for harm.

3.74 Firms will need to consider the relevant requirements in CONC 7, including:

- Making clear and understandable information available to the customer which takes their individual circumstances into account, and is sufficient to enable the customer to understand their financial position in relation to their debt (including how it is reported to the customer's credit file).
- Ensuring that the communication is sufficient to enable the customer to understand their options in relation to their debt. This includes the potential impact of any forbearance or other support on their overall balance and how it will be reported to the customer's credit file.
- Considering the most appropriate way to engage and communicate with a customer, and supporting them to engage through appropriate channels, changing the channel if necessary so the customer can engage with the firm effectively.
- Where appropriate, informing the customer that free and impartial money guidance and debt advice is available and explaining its potential benefits, and referring the customer to a not-for-profit debt advice body.

3.75 When communicating its intention to take steps to terminate or enforce a term of a DPC agreement, a firm should also consider the customer's right to apply for a time order under section 129 CCA in their communications with that customer.

Question 5: **Do you agree that our proposed new rules on providing information to DPC borrowers who have missed a repayment are appropriate?**

Question 6: **Do you agree that our proposed new rules requiring firms to give notice before taking certain actions are appropriate?**

Question 7: **Do you think that reliance on the Duty could deliver our policy objectives for our proposed new rules on firms' communications to DPC customers who have missed a repayment or where a firm intends to take certain actions instead?**

Creditworthiness

3.76 This section sets out our expectations for how DPC lenders should assess their customers' creditworthiness. We propose to apply our existing principles-based rules and guidance at CONC 5.2A. We believe this will raise standards in this market, while enabling firms to act proportionately.

Our proposed approach

3.77 Consumers need to be protected from harm that can arise when they are granted credit that is unaffordable. We want DPC lenders to make a reasonable assessment not just of whether the customer will repay, but also their ability to repay affordably and without this significantly affecting their wider financial situation.

3.78 Our existing creditworthiness rules and guidance in CONC 5.2A have been designed to cater for a wide range of credit products and to provide proportionate protection for customers in a variety of financial circumstances.

3.79 When clarifying our expectations in 2018 (PS18/19), we highlighted some of the key features of our creditworthiness rules and the flexibility of their application.

- Our approach is principles-based, rather than prescriptive, and emphasises proportionality.
- Our rules allow firms to have a reasonable degree of flexibility in how they assess creditworthiness. There may be multiple ways in which they can comply with our rules.
- Lenders must assess affordability based on sufficient information, but we do not prescribe in detail what this should be or whether and how firms should verify this information.
- Being too prescriptive could have harmful unintended consequences, including for the cost and availability of credit. We want firms to take a proportionate approach, considering the costs and risks of the credit to the individual customer.

3.80 CONC 5.2A.20R sets out that the scope and extent of a creditworthiness assessment should depend on, and be proportionate to, the individual circumstances of each case. The rule also sets out factors which firms must consider, including the type and amount of credit, its cost and any adverse consequences of missing repayments. These are all relevant to DPC lending.

3.81 As an interest-free product which generally involves small-sum advances over short periods, DPC might pose a lower risk than some other credit products. DPC products work well when they give consumers access to credit that is affordable.

3.82 However, many DPC customers display characteristics of vulnerability, low financial resilience and have poor credit histories. Our 2024 FLS identified that 13.1 million adults had low financial resilience and that 26.4 million showed at least 1 characteristic of vulnerability. A higher proportion of DPC users display these characteristics compared to the general population, particularly for frequent DPC users. Missed repayments can also lead to late repayment fees and an adverse impact on a consumer's credit file.

3.83 DPC lenders currently have different approaches to assessing affordability. We have seen an example of a minimal assessment being made which only involved checking if the customer is currently behind with existing repayments with that firm.

3.84 So, we propose that DPC lending will be subject to our creditworthiness rules in CONC 5.2A. We do not intend to make any changes to these rules for DPC. We believe that the flexibility allowed under our rules gives firms the ability to use their judgement in deciding what is proportionate.

3.85 As indicated in our CBA, our firm survey shows the sector has high arrears levels with some firms getting significant revenue from late fees. We expect compliance with our creditworthiness rules will result in fewer unaffordable loans and lower arrears rates, and hence reduced late fees.

3.86 Under these rules, we would expect DPC lenders to have adequate governance and systems and controls in place to ensure that they meet our requirements. CONC 5.2A.33R requires firms to establish, implement and maintain clear and effective policies and procedures for assessing creditworthiness, including affordability. These should set out the principal factors to be considered when assessing creditworthiness and must be approved by the firm's senior management. The firm should periodically review the effectiveness of these policies and procedures, and its compliance with them and our rules, and take action to address any deficiencies. The firm should also keep a record of each transaction where credit is granted.

Use of innovative tools and automation

3.87 Under our rules, firms can use a variety of methods and processes to assess creditworthiness. These can be automated or manual, or a combination. We expect DPC lenders will generally use automated assessments. In such cases, we expect their policies and procedures to mitigate any risks associated with those processes. The same applies if the firm significantly relies on data or information from CRAs or other third parties.

3.88 We are seeing increased use of innovative technology to support lending decisions such as AI and open banking. If these are to be used or developed by DPC lenders, it is important that they test these models' effectiveness in producing responsible and sustainable lending decisions. As with other regulated credit agreements, DPC lenders should not focus entirely on efficiency savings at the expense of responsible lending decisions.

3.89 Our rules make the distinction between credit risk (the risk to the lender that the customer will not repay) and affordability risk (the risk to the customer of not being able to make repayments). It is important that automated assessment processes designed by DPC lenders do not wholly focus on credit risk, and sufficiently consider affordability risk.

3.90 We recognise that DPC lenders may want to use CRA data or products in their creditworthiness assessments. There are currently different approaches taken to the reporting of DPC products to CRAs. While we do not currently require lenders to report credit information to CRAs, reporting DPC products to CRAs is important to help provide visibility of DPC use across the DPC sector and to the wider retail lending market. We plan to consult later this year on the proposed remedy set out in the Credit Information Market Study to introduce a mandatory reporting requirement, including how this might apply to the DPC sector.

Repeat lending

3.91 We know some consumers frequently use DPC, whether through credit from multiple DPC lenders or from a single firm. We recognise that this can be a convenient way to pay for things by spreading payments over a manageable period and as an alternative option to paying by credit or debit card. FLS 2024 data showed that 17% of DPC holders used the product 5 to 9 times in the 12 months to May 2024 and 12% used DPC 10 to 24 times.

3.92 However, this can pose risks. Research by the Money and Mental Health Policy Institute shows DPC's relatively seamless customer journey and lack of friction can lead to impulse buying, resulting in leading to some customers building up multiple debts. This is particularly the case for people with mental health challenges.

3.93 Some of the information we have from DPC lenders suggests that even where a customer misses repayments, firms will nevertheless lend again as soon as those repayments are brought up to date, even when this happens multiple times. This happens without DPC lenders considering the signals this might give about the consumer's wider financial circumstances. In these circumstances, we would expect the firm to probe the customer's financial position and form a view about whether further borrowing might increase their overall financial pressures.

3.94 In the past, we have taken supervisory action where some firms were creating poor consumer outcomes by relying on re-lending of regulated credit to sustain their business models. Some of these firms offered products designed to promote persistent use of credit, resulting in unsustainable borrowing and financial hardship. It is important that repeat lending is sustainable for consumers and supports good customer outcomes. As set out in the Duty cross-cutting rules, we will expect DPC lenders to act in good faith, avoid causing foreseeable harm and enable and support consumers to pursue their financial objectives.

3.95 DPC lenders need to include the information they hold on their existing customers in their creditworthiness assessments. Firms should consider information that may indicate current, recent or potential financial difficulties, as well as any customer vulnerabilities (see CONC 5.2A.22G).

3.96 Firms have asked us whether they need to undertake a creditworthiness assessment for each DPC transaction. We recognise that DPC transactions can sometimes be for very small amounts, and could even occur multiple times in a single day. We do not want to discourage the use of credit in this way, but a creditworthiness assessment is still required although there may be various appropriate models and approaches for this type of lending. Without customers having their creditworthiness assessed, it is more likely they will take out unaffordable credit that ultimately doesn't meet their needs.

3.97 We know some firms decide an internal credit limit for making frequent advances and treat the customer relationship as though they were providing a running account type of facility. DPC is fixed-sum credit and under our rules requires a proportionate creditworthiness assessment before each advance of credit is provided. Successive lending of small amounts might not require as full an assessment as the original advance of credit. CONC 5.2A.23G states that a firm may have regard, where appropriate, to information obtained in the course of previous dealings with the customer. However, the firm should also consider whether the passage of time could have affected the validity of the information and whether it is appropriate to update it.

Small Agreements

3.98 Our current creditworthiness rules (CONC 5.2A.2R(4)) do not apply to small borrower-lender-supplier agreements which are restricted-use credit. A small borrower-lender-supplier agreement in our Handbook is one 'which is a small agreement within meaning of section 17 of the CCA', where the credit does not exceed £50. The Government is amending section 17 CCA to exclude DPC agreements.

3.99 Unless we decide otherwise, this means that our creditworthiness rules will apply to small DPC agreements when they become regulated. So, CONC 5.2A would apply to DPC agreements of £50 or less.

3.100 The data we have from firms indicates that just over half of DPC agreements involve advances below this amount. Although the sums are small in isolation, consumers can take out multiple loans from the same firm leading to higher aggregate balances and the harms posed by unaffordable lending.

3.101 Our engagement with DPC lenders indicated a preference for a consistent approach to creditworthiness assessments, and an expectation that they will run a single automated system across their loan books. As detailed above, firms can use their judgement to assess creditworthiness proportionately.

3.102 However, we want to understand stakeholders' views on whether it is proportionate for our creditworthiness rules to apply to DPC agreements of £50 or less.

Question 8: **Do you agree that applying our current creditworthiness rules and guidance to DPC lending is appropriate?**

Question 9: **Do you have any views on the extent to which our approach to creditworthiness might inadvertently restrict access to DPC for customers who could afford it?**

Question 10: **Could we achieve appropriate outcomes if we relied substantively on the Duty instead (most notably the obligation to avoid causing foreseeable harm to consumers) rather than the creditworthiness rules in CONC 5.2A?**

Question 11: **Do you agree with our proposal to apply our creditworthiness rules to DPC agreements of any value, or do you have views as to alternative approaches to small sum lending (including relying on the Duty)?**

Chapter 4

Application of the wider Handbook

4.1 This chapter sets out our proposals on how the wider Handbook will apply to DPC lenders.

Principles for Businesses (PRIN)

4.2 We propose to apply PRIN to all DPC lenders.

4.3 PRIN sets out the fundamental obligations that FCA-regulated firms must meet at all times. These Principles often underpin more detailed requirements, such as those in CONC.

4.4 As explained in Chapter 2, we are proposing that DPC lenders will also need to comply with the Duty. The detailed requirements are in PRIN 2A. Firms should also have regard to guidance we published alongside those requirements, and more broadly to our guidance for firms on the fair treatment of vulnerable customers for further information on our expectations.

Threshold Conditions (COND)

4.5 FSMA dictates that firms must satisfy, and continue to satisfy, the Threshold Conditions to become and remain authorised. COND sets out our expectations of firms.

4.6 Firms will be able to enter the TPR without being assessed against the Threshold Conditions. However, they will be assessed against the Threshold Conditions when they apply to be fully authorised.

4.7 We do not propose to make any changes to COND for DPC lenders. DPC lenders should therefore familiarise themselves with these requirements.

4.8 As these are set out in FSMA, we are not consulting on the Threshold Conditions themselves, but we welcome any comments on the application of COND to DPC lenders.

General Provisions (GEN)

4.9 We propose applying our General Provisions to DPC lenders and firms in the TPR. GEN includes rules covering the administrative duties that apply to the firms we regulate. These rules are designed to make sure consumers are not misled, that all regulated credit firms operate on a level playing field and that firms are transparent about their regulatory status.

4.10 We are consulting on specific wording that firms in the TPR will be required to use in accordance with GEN when explaining their regulatory status. This is so that consumers understand that, while a firm in the TPR will be undertaking regulated activity for DPC agreements, the firm is not fully authorised. The regulatory status disclosure wording will refer consumers to our website where we will set out the requirements that firms in the TPR must meet and where we will explain that the firm has not been assessed by the FCA.

Systems and controls (SYSC)

4.11 We propose to apply the rules and guidance about systems and controls to all DPC lenders, as they apply to 'any other SMCR firm' under SYSC 1.1A.1G. These rules are set out in SYSC and explain how firms should organise and manage their affairs. One of the purposes of SYSC is to amplify Principle 3: 'A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems'.

4.12 Firms new to FCA regulation should familiarise themselves with the detail of SYSC and what it requires.

Senior Managers and Certification Regime

4.13 The Senior Managers and Certification Regime (SM&CR) aims to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence. As part of this, the SM&CR aims to:

- Encourage staff to take personal responsibility for their actions.
- Improve conduct at all levels.
- Make sure firms and staff clearly understand and can show who is accountable for what.

4.14 The Government's legislation provides that, where lenders have temporary permission, it will not have effect as a Part 4A permission for the purposes of section 59 (approval for particular arrangements) and section 63E (certification of employees by authorised persons) of FSMA. So, we do not propose to apply any of the conduct standards for senior managers and certified staff in our Code of Conduct Sourcebook (COCON) to firms that have a temporary permission (and do not otherwise have Part 4A permission) until they are fully authorised and in scope. We believe this is a proportionate approach in line with the Government's legislative intent. We further set out how the SM&CR will apply to firms in the TPR in paragraph 6.22.

4.15 Our website sets out how firms are categorised under the Senior Managers element of SM&CR. Certification functions are set out here. However, firms should note that the FCA and PRA are currently consulting, based on feedback to their joint Discussion Paper (DP23/3: Review of the Senior Managers and Certification Regime (SM&CR)), to improve the regime's efficiency and effectiveness. The Government has also published a consultation on legislative changes that aim to reduce SM&CR regulatory burdens while retaining the overall aims and benefits of the regime. This includes a proposal to remove the current Certification regime from legislation and to replace it with more proportionate arrangements set out in the Handbook.

4.16 DPC lenders will need to consider the flowchart in SYSC 23 Annex 1 1.2R to decide which category of SMCR firm they fall into. Their CEOs, Directors (or partners if appropriate) will be required to hold the relevant Senior Manager Functions.

Other relevant Handbook provisions

4.17 In addition, we propose that DPC lenders be subject to all other relevant Handbook provisions, including the Supervision Manual (SUP) and the Enforcement Guide (EG), with which we expect firms to familiarise themselves.

Question 12: Do you agree with our proposal for applying high-level standards and all other relevant Handbook provisions to DPC lenders?

Regulatory reporting

4.18 Data plays an important role in our supervision of markets. We are becoming a more data-led regulator, but seek to only collect data where it is necessary and proportionate.

4.19 We do this through a range of regulatory returns with firms required to provide data in a set form in line with a predictable reporting schedule. This enables firms to build systems with certainty and prevents us from having to issue bespoke information requests that can be challenging for firms to respond to.

4.20 We propose to apply existing regulatory reporting requirements to fully authorised DPC lenders and their regulated DPC activities. As is currently the case for regulated firms, this will be based on the permissions that firms hold. However, we are proposing some tailoring to lower the initial burden on newly authorised DPC lenders. We welcome views on whether this is the right approach, particularly for transaction-level data.

Transaction-level data – Product Sales Data (PSD)

4.21 In PS24/3, we set out the first steps of our multi-year consumer credit data strategy by introducing credit-related PSD returns.

4.22 This requires regulated consumer credit lenders with an annual total value of £2m or more in outstanding consumer credit balances and/or new consumer credit advances to submit transaction-level PSD for their 'relevant regulated credit agreements'. This covers regulated credit agreements that are not overdrafts or loans secured on land.

4.23 On a calendar quarterly basis, these firms are required to submit sales made within the reporting period (PSD008) and the performance/status of loans that remain open or were closed within the reporting period (PSD009). These firms also have to submit a one-off back-book return (PSD008a) alongside their first PSD009 return.

4.24 Collecting transaction-level data enables us to:

- Better understand the sector, the range of consumer credit lending products available and how they are performing in the interests of consumers.
- More efficiently target our supervisory and policy work to where the risk of harm is heightened and act more quickly to protect consumers.
- Determine whether poor outcomes are due to substandard product features by linking lending products' features to better understand how consumer outcomes differ between firms, products or even within the same firm.

4.25 We believe that collecting transaction-level data on DPC agreements is particularly important as:

- DPC is now the third most used credit product behind credit cards and overdrafts. We have also seen DPC evolve over this time, being offered by a broader range of retailers/suppliers and via different distribution channels. It is important that we get regular data to understand whether this is being achieved sustainably given our consumer protection and growth objectives.
- It will help inform our targeted and proportionate supervision of potential problem areas, such as creditworthiness and forbearance. This will help us deliver on our strategic approaches of smarter regulation and less intensive scrutiny of firms who are doing the right thing.
- The legislation bringing DPC into regulation requires the Government to review its effect every 5 years. We will also want to monitor the effectiveness of our rules. Due to the high number and short-term nature of DPC agreements entered into, transaction-level data would help us to establish relatively quickly whether our regulation is delivering the intended outcomes.

4.26 We consider that requiring firms to submit DPC data as part of PSD returns is the most proportionate and mutually efficient way of getting this data. The majority of DPC lenders already hold a relevant credit permission and so will already have to submit PSD returns for their non-DPC regulated credit agreements provided they meet the de minimis reporting threshold.

4.27 Bringing DPC into scope of PSD will also enable us to look across consumers' borrowing patterns and the performance of those loans using a consistent dataset. Not including DPC in this view risks limiting our understanding of consumers' financial lives, drivers for borrowing, access to credit, loan performance, financial difficulty and, ultimately, harm.

4.28 However, to ease the implementation burden on firms, we propose some tailoring to when these requirements apply:

- Regulated DPC agreements entered into (or assigned to the DPC firm – for example by a book purchase) between Regulation Day and the end date of the first full 2 quarters after Regulation Day will not be reportable in PSD.

- For firms that already hold Part 4A permission to engage in consumer credit lending, DPC agreements will not be reportable in PSD008 and PSD009 until the latest of:
  - The third full quarter after the quarter in which Regulation Day takes place and
  - The firm's first reporting period determined by the existing rules in SUP 16.11, triggered by a CCR003 return that shows the firm is exceeding the £2m de minimis threshold.
- A lender engaging in regulated DPC lending will not need to submit another PSD008a back book return if it has already done so for other types of regulated credit agreement.

4.29 We will not require firms to submit PSD returns in respect of their DPC activity while they are in the TPR. We will be engaging closely with the relatively small number of firms on a regular basis as part of the authorisation process, and we will also be supervising firms in the TPR, and so we do not feel it is proportionate for them to incur costs to provide PSD returns during this period.

4.30 We would normally wait for a firm's CCR003 report to fall due to understand whether they are in scope. However, we will use a different approach for TPR firms. Once authorised, firms will need to attest to their regulated lending volumes and outstanding balances to determine whether or not they are over the £2m de minimis threshold. If a firm meets or exceeds the threshold, we propose that their first reporting period for PSD008 and PSD009 will be the fifth full quarter after the quarter in which they were authorised.

4.31 We are not proposing any new fields or field values to accommodate regulated DPC agreements. We believe this would be disproportionate, particularly for firms that have already incurred system build costs. Instead, we will be able to identify regulated DPC agreements from certain values across existing fields.

4.32 However, we have clarified that DPC agreements must not be reported as BNPL agreements. For the purposes of our Handbook, BNPL refers to regulated credit agreements with a product feature that gives the consumer a promotional period during which they are not charged interest. However, if the consumer does not repay in line with the contract, interest becomes payable.

4.33 There are alternatives to collecting this transaction-level data via PSD. We could, for example, request ad hoc data from DPC lenders – e.g. by relying on our section 165 FSMA powers. The relatively small number of DPC lenders may make this feasible from our perspective. However, we are concerned that firms would ultimately find this approach less predictable, less efficient and more costly.

Aggregate returns

4.34 Certain aggregated regulatory returns apply to fully authorised credit firms, depending on which credit-related (and other) permissions they hold.

4.35 CCR001 (financial data) applies where a firm only holds credit-related permissions. CCR002 (volumes) applies to all full permission credit firms. CCR003 (lender activities) applies only to consumer credit lenders. For CCR001, CCR002 and CCR003, these reporting schedules are set with reference to the firm's accounting reference date, with the frequency determined by their annual revenue from credit-related activities (6 monthly if in excess of £5m; annually if £5m or less).

4.36 In May 2025, we made final rules for 'relevant ancillary credit firm' reporting (PS25/3). This will result in a new regulatory return (CCR009). Where a DPC lender holds any of the ancillary credit permissions in addition to its lending permission(s), it will be required to report that relevant ancillary activity from December 2025 (covering January to December 2025), and thereafter either 6-monthly or annually in line with the revenue thresholds above.

4.37 As explained in PS25/3, we are planning to phase out some existing regulatory returns, including CCR002. Ahead of that, firms do not need to repeat most credit broking information in other aggregated returns where they have already provided this in their CCR009 return.

4.38 Among the other aggregated returns:

- FIN073 applies to most regulated firms, with exceptions listed at SUP 16.30.1R.
- FIN074 applies to any credit firm holding permissions to provide regulated activities that we have assessed will bring them in scope of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR). However, as there are exemptions for certain credit agreements where a firm is only in scope of the MLR due to its lending activity, firms can contact us before submitting a return if they think the exemptions apply. Note that this return is stipulated in regulation 5 of the Economic Crime (Anti-Money Laundering) Levy Regulations 2022 rather than our Handbook.
- REP-CRIM similarly applies to firms in scope of MLR. This only applies to credit lenders with revenue of >£5m as at their last accounting reference date.
- REP008 (Notification of Disciplinary Action) applies to any SM&CR firm and its employees (other than Senior Management Functions (SMFs)) who are subject to COCON.
- REP024 applies to firms with permission to approve financial promotions.
- REP025 applies to firms with Appointed Representatives.

4.39 We propose applying aggregated regulatory returns to fully authorised DPC lenders from Regulation Day. We believe it is proportionate that these high-level returns apply in the same way that they do to all other forms of regulated credit, to enable us to regulate this market consistently.

4.40 In practice, this means that:

- DPC lenders who already hold the requisite Part 4A permissions will need to factor their regulated DPC activity into their existing reporting requirements (and existing reporting schedules) from Regulation Day.

- Firms in the TPR will not be required to submit any of these aggregated returns. An exception is where a TPR firm is already required to submit any of these returns because of a Part 4A Permission it already holds. Even in this case, where a firm is undertaking regulated DPC activity by virtue of being in the TPR, the firm will not need to submit DPC activity in those returns.

Question 13: **Do you agree with our overall approach to regulatory reporting? If not, why not?**

Question 14: **Do you agree that DPC should be subject to PSD returns? If not, what alternatives are there to requiring firms to submit PSD returns to meet our intentions?**

Question 15: **Do you agree that we should collect regular, predictable transaction level data? If not, why not? And how would you propose mitigating the risks of not collecting regular, predictable transaction-level data?**

Question 16: **Are there areas where firms may need longer implementation times? If so, how do you propose to mitigate any risks posed by a delay in firms providing us with data?**

Chapter 5

Dispute resolution

Complaints handling rules (DISP)

5.1 This chapter sets out the rules in our 'Dispute resolution: Complaints' sourcebook (DISP) which we propose to apply to all DPC lenders within the regulatory perimeter once FCA regulation starts. The rules in DISP cover how firms should handle complaints and when complaints can be referred to the Financial Ombudsman. Having robust, fair procedures for dealing with complaints will help to reduce harms in the DPC sector.

5.2 Under section 226 of FSMA, we must make rules to specify the regulated activities for which consumers can make complaints that can be dealt with by the Financial Ombudsman as part of its 'compulsory jurisdiction' (CJ). We propose to extend the Financial Ombudsman's CJ to include regulated DPC activities.

5.3 The Financial Ombudsman also has its own voluntary jurisdiction (VJ) which covers some types of complaint not covered by the CJ and which financial services firms may choose to participate in and which it oversees. As such, this part of the consultation is issued jointly by the FCA and the Financial Ombudsman.

Financial Ombudsman Service

5.4 The Financial Ombudsman is an independent body set up by Parliament to resolve complaints referred to it by consumers unsatisfied with the way businesses have provided financial services and/or claims management services. The Financial Ombudsman has a statutory duty to resolve disputes 'quickly and with minimum formality', offering consumers an alternative to court litigation. Its decisions are based on what, in the Ombudsman's opinion, is fair and reasonable in all the circumstances of each case.

5.5 The Financial Ombudsman is free for consumers to use. When an ombudsman decides to uphold a complaint, they can make a monetary award against the firm for an amount they consider provides fair compensation and/or issue any direction they consider just and appropriate. The ability for consumers to refer complaints to the Financial Ombudsman will help build eligible complainants' trust that they will get a fair outcome when they complain.

5.6 The Financial Ombudsman is already familiar with complaints about regulated credit agreements, and therefore ready to respond to the various types of complaints likely to arise from DPC agreements. It intends to engage with key DPC stakeholders in the lead up to regulation as it recognises this is an opportunity to work with industry and to evolve. It has already begun improving its digital complaint journey offering and will see what further innovation and improvement it can implement.

What are our key proposals?

5.7 The FCA and Financial Ombudsman propose, for each set of rules they make, to:

- Apply complaint handling requirements in DISP to DPC activities to ensure that complaints are dealt with promptly, consistently and fairly.
- Bring firms carrying out DPC activities within the CJ of the Financial Ombudsman.
- Make and amend the scope of the Financial Ombudsman's VJ so that it covers complaints about DPC activities which are carried on by a respondent from an EEA or Gibraltar establishment. This is because such complaints would not otherwise fall within the scope of the CJ. Such respondents would need to join the VJ (if they are not already participants in it) to offer this coverage to its customers.

Key sections of DISP that will apply to firms carrying out DPC activities

5.8 The FCA proposes to apply all the complaint handling rules in DISP to complaints about DPC activities. Under our proposals, DPC lenders, including those with temporary permission, will need to comply with the complaints handling rules in DISP 1 for all complaints about regulated DPC agreements entered into on or after Regulation Day. An exception to complaint reporting rules in DISP 1.10 will apply to firms still in the TPR, as set out in more detail in paragraphs 5.29-5.33.

5.9 The DISP 1 Chapter contains rules and guidance on how firms should deal promptly and fairly with complaints. It includes requirements for complaints to be investigated impartially and assessed fairly and for a clear explanation to be given about the assessment of the complaint. Upon receipt of a complaint, a firm must send a prompt written acknowledgement. By the end of 8 weeks after receiving the complaint, the firm must send a final response which offers redress or clearly explains its response. Alternatively, the firm must send a written response which explains why the firm has been unable to provide a final response, and when it expects to provide one. In either case, a firm must send information about referral rights to the Financial Ombudsman.

5.10 The above is not a full summary of DISP 1 and firms should familiarise themselves with all sections of DISP, which also includes the jurisdiction of the Financial Ombudsman in the DISP 2 Chapter and the complaint handling procedures of the Financial Ombudsman in the DISP 3 Chapter.

Question 17: Do you agree with our proposal to apply our rules in DISP Chapter 1 to DPC complaints?

Compulsory jurisdiction of the Financial Ombudsman

5.11 DISP 2.3 sets out the activities to which the Financial Ombudsman's CJ applies. It applies to all authorised firms and covers most regulated activities (and ancillary activities) as well as some unregulated lending. Complaints about DPC currently sit outside the Financial Ombudsman's CJ. Once DPC agreements become regulated, we propose to ensure complaints arising from acts and omissions of firms in carrying on DPC activities are brought within the Financial Ombudsman's CJ. Those will generally be captured under DISP 2.3.1R(1) as complaints about regulated consumer credit lending under Article 60B of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the RAO).

5.12 Under its CJ, the Financial Ombudsman will only be able to consider complaints arising from regulated DPC agreements entered into on or after Regulation Day. It will not be able to consider complaints about agreements entered into before Regulation Day.

5.13 As set out in DISP 2.1.1G, the Financial Ombudsman's CJ mainly covers complaints about regulated activities provided by authorised firms at the time of the events complained about. This includes firms authorised under a temporary permission as they will be deemed to have Part 4A permission. This means that even if a firm enters the TPR but subsequently leaves or does not become FCA-authorised, the Financial Ombudsman will be able to consider complaints about any relevant act or omission arising from DPC activities that occurred while the firm was in the TPR, as long as the agreement they relate to was entered into on or after Regulation Day.

Eligible complainants

5.14 The FCA does not think that it is necessary to make changes to the DISP 2.7 rules on eligible complainants. We expect most users of regulated DPC to be eligible complainants and for complaints to arise as a result of the complainant being a customer of the firm, which is one of the eligible relationships listed under DISP 2.7.6R.

Voluntary jurisdiction of the Financial Ombudsman

5.15 Under the FCA's proposals, the Financial Ombudsman will only be able to consider complaints about regulated DPC agreements entered into on or after Regulation Day. It will not be able to consider complaints about agreements entered into before this. The CJ's territorial limitations will restrict the CJ to complaints about DPC activities carried on from an establishment in the UK.

5.16 The Financial Ombudsman also offers a voluntary jurisdiction (VJ), which businesses with complaints not covered by the CJ can choose to join. The rules and standard terms for investigating and deciding complaints in the VJ are designed to mirror those of the CJ to ensure consistency and avoid confusion. The scope of the VJ is wider than the CJ. The rules can provide for complaints about activities that were not regulated at the time, but became regulated later, to be covered. It also covers services directed at the UK from an establishment in the European Economic Area (EEA) or Gibraltar.

5.17 When deciding complaints in the VJ, the Financial Ombudsman is required to take into account: relevant law and regulations, regulators' rules, guidance and standards; codes of practice; and what the ombudsman considers to have been good industry practice. These are important when deciding what is fair and reasonable. The introduction of regulation will bring agreed standards of behaviour for firms as well give additional protections for DPC customers, for example from section 75 of the CCA.

5.18 Due to the absence of a recognised and commonly followed framework of standards of behaviour prior to the introduction of regulation – particularly in relation to key lending practices – the Financial Ombudsman does not propose making the VJ available for complaints arising from DPC agreements made before Regulation Day. However, the Financial Ombudsman is proposing to make rules to expand the scope of the VJ so that it will cover complaints about DPC activities which are carried on from an EEA or Gibraltar establishment (and which, as noted above, would not otherwise fall within the scope of the CJ).

5.19 In principle, this would mean that the VJ will be available to businesses that require FCA authorisation given the nature of the DPC activities they plan to undertake, but intend to carry out those activities from an EEA or Gibraltar establishment rather than a UK establishment.

5.20 The Financial Ombudsman does not expect there are likely to be many, if any, businesses falling into that category. However, if any businesses that are not already VJ participants expect they will fall within this category and wish to join the VJ, they should make an application following the process set out on the Financial Ombudsman's website.

Determinations and awards by the Financial Ombudsman

5.21 The Financial Ombudsman already considers complaints on a wide range of consumer problems. This includes, since 6 April 2007, complaints relating to consumer credit activities.

5.22 The Financial Ombudsman determines complaints by reference to what is fair and reasonable in all the circumstances of the case. Where a complaint is upheld, it can order a firm to remedy the situation, including by directing it to pay what it considers fair compensation or to take just and appropriate action. The Financial Ombudsman has an award limit of £445,000 for complaints about acts or omissions that occurred on or after 1 April 2019 and referred to the Financial Ombudsman on or after 1 April 2025. This limit is adjusted to take account of inflation on 1 April each year, for complaints referred to the Financial Ombudsman on or after this date. Awards of up to the relevant statutory award limit are binding on firms if the complainant accepts them.

Financial Ombudsman general levy and case fee

5.23 The Financial Ombudsman is free for consumers to use. It is funded by:

- Case fees which are usually invoiced and collected by the Financial Ombudsman once cases have been resolved; and
- Annual fees (levies) which are collected by the FCA for complaints dealt with as part of the Financial Ombudsman's CJ and by the Financial Ombudsman for complaints dealt with as part of its VJ.

5.24 Since 1 April 2025 professional representatives, including law firms and claims management companies (CMCs), have been required to pay a fee of £250 for every complaint referred to the Financial Ombudsman after the first 10 complaints, which can be referred for free each year. If the complaint is closed with a change in outcome in favour of the consumer, the Financial Ombudsman will credit the professional representative the sum of £175, and the respondent firm must pay the full case fee (currently £650). In cases where the complaint is closed other than as a change in outcome in favour of the consumer, the full £250 is payable by the professional representative and the Financial Ombudsman will reduce the case fee due by the respondent firm to £475.

5.25 The fees and levy rules that apply to firms currently covered by the Financial Ombudsman are contained in Chapter 5 of the FEES manual in the Handbook.

5.26 The powers to make rules on funding the Financial Ombudsman are shared between the FCA and the Financial Ombudsman.

- **a.** The FCA makes rules on raising the CJ general levy for the Financial Ombudsman's annual budget (the General Levy).
- **b.** The Financial Ombudsman sets rules for: (i) case fees (currently £650 per case), including the number of cases that are handled each year without a fee being charged (currently 3), (ii) the annual levy for VJ participants and (iii) the professional representative fee.

5.27 For the purposes of the General Levy, we believe that firms carrying out DPC activities should come within the existing industry blocks for credit-related activities.

5.28 The FCA will separately consult on its approach to the General Levy as part of its annual consultation on fees policy. The Financial Ombudsman will consult on its case fee and the compulsory and voluntary jurisdiction levies for 2026/27 as part of its plan and budget at the end of 2025.

Question 18: Do you agree with:

- **The FCA's proposals to extend the Financial Ombudsman's CJ to DPC activities?**
- **The Financial Ombudsman's proposals to exclude pre-regulation DPC activities from the VJ?; and**
- **The Financial Ombudsman's proposals to expand the scope of the VJ to cover DPC activities carried on after regulation day from an EEA or Gibraltar establishment?**

If you disagree with the proposals, please provide details in your response.

Complaints reporting

5.29 As set out in paragraph 1.9, the Government's legislation provides for the creation of a TPR. We outline our proposals on this regime at Chapter 6 below. In general, when dealing with complaints, authorised firms are required to provide regular complaints reports to us in a prescribed format. However, to ease the burden on firms familiarising themselves with the new regime and subject to the TPR, the FCA proposes to suspend these complaints reporting requirements for complaints involving regulated DPC activities for as long as the relevant firm operates with a temporary permission.

5.30 Similarly, a firm may already be authorised under Part 4A FSMA for other regulated activities, but enter the TPR because it needs to vary its pre-existing permissions to allow it to carry on DPC activities. In this case, it will not be required to include complaints made about its DPC activities in complaints reports due for its other regulated activities while it is in the TPR.

5.31 These reporting requirements will apply to firms that obtain full Part 4A permission to carry on DPC activities: DPC activities complaints not yet reported will then have to be reported in the firm's first complaints report for these activities.

5.32 The FCA may also engage closely with TPR firms on complaints as part of the authorisation process, noting that all other DISP provisions will start to apply to the firms DPC activities from Regulation Day, including internal complaints recording requirements under DISP 1.9.

5.33 Firms should be aware that we recently consulted on new proposals for complaints reporting (CP25/13), including on how the transitional provisions for complaints reporting will be presented in DISP. Because the FCA has only recently published these proposals, the current organisation of DISP is still in force. We recommend that firms wanting to engage in regulated DPC agreements should familiarise themselves with these proposals and any future updates. Since the suspension of complaints reporting requirements is proposed to be set out in CONC rules relating to the TPR, and mere guidance referring to these rules is added in DISP 1 TP 1.1, we do not currently expect this reform will have a substantive impact. However, we will consider if an update could be needed before the start of the proposed regulatory regime for DPC.

Question 19: Do you agree with the FCA's proposals to suspend complaints reporting rules for complaints arising from DPC activities for firms in the TPR until they become fully authorised?

Compensation Sourcebook (COMP) and access to the Financial Services Compensation Scheme (FSCS)

5.34 The FSCS is the UK's statutory compensation scheme for customers of financial services firms. It can pay compensation to customers if a firm is unable, or unlikely to be able to, pay claims against it. Rules governing access to the FSCS are set out in the Compensation Sourcebook (COMP).

5.35 In general, no FSCS cover is available for claims in respect of consumer credit activities as there are limited risks to consumers' money in these markets. An exception to this general position applies for claims relating to a shortfall in client money caused by certain debt management activities, which can be made to the FSCS due to the different nature and risks of these activities.

5.36 To maintain consistency, we are not proposing any change of this position, so DPC activities will remain outside the scope of the FSCS's cover.

Question 20: **Do you agree with our proposal not to extend FSCS cover to DPC activities consistently with the approach to other consumer credit activities? If not, please provide details on why you think DPC should be treated differently.**

Chapter 6

Authorisation

6.1 This chapter sets out our proposed approach to firms undertaking DPC activity who do not currently hold the necessary consumer credit permissions. This includes how the Temporary Permissions Regime will operate.

Temporary Permissions Regime (TPR)

6.2 We recognise the breadth of stakeholder support for DPC to be brought into regulation as soon as possible. To achieve this, the Government has legislated to put in place a TPR.

6.3 The TPR will allow firms who do not currently hold the necessary consumer credit permissions to continue to operate until we determine their application for authorisation. This includes firms who are not currently authorised by us for any regulated activities, as well as authorised firms who do not currently hold the necessary credit permissions.

6.4 The Government's legislation sets out that firms in the TPR will be deemed authorised under Part 4A FSMA subject to specified exceptions. As a result, these firms will be permitted to undertake the relevant regulated activities for newly regulated agreements and will need to comply with the relevant FCA rules while we assess their application for full authorisation.

6.5 The TPR will allow us to regulate this sector more quickly. From Regulation Day we will be able to supervise firms in the TPR as well as firms that are already authorised. We will also be able to take enforcement action in relation to their DPC activities (rather than waiting until all relevant firms are fully authorised).

6.6 The relevant regulated activities 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.

6.7 Firms that already have lending (Article 60B) permissions (and Gibraltar-based firms passporting into the UK to undertake DPC activities), will not need to register for the TPR or seek specific permissions to undertake DPC activities from Regulation Day. This is because their existing permissions will cover these activities.

Eligibility for the TPR

6.8 Firms without the relevant permissions that want to continue DPC activities from Regulation Day onwards will need to notify us of this before Regulation Day.

6.9 Firms will only be able to enter the TPR where they meet all the following criteria:

- Are carrying on a DPC activity (which will become a regulated activity on Regulation Day) at the initial commencement date of the Government's legislation (15 July 2025).
- Have notified us before Regulation Day.
- Have paid the relevant registration fee which we will consult on in a future consultation.

6.10 We expect third-party lenders offering currently exempt DPC agreements, and who are not already authorised for Article 60B activities, will need to enter the TPR if they want to undertake newly regulated activity on or after Regulation Day. This includes third-party lenders who have an arrangement with a merchant who agrees to sell the goods to the lender at the point when the newly regulated agreement is taken out, if that lender is not already authorised for Article 60B activities.

6.11 Merchants that split lending and retailing across 2 or more separate legal entities will need to ensure each of the relevant legal entities in their groups which are carrying on DPC lending hold the correct permissions now, register for TPR or cease their relevant operations prior to Regulation Day.

Sequencing of the TPR

6.12 Notification for registration for TPR will open 2 months before Regulation Day.

6.13 Only eligible firms who have fulfilled the criteria set out in paragraph 6.9 will be registered for temporary permission. Those firms will be required to provide:

- Evidence that they were carrying on DPC lending at the initial commencement date of the Government's legislation. (15 July).
- Their firm's details including their registered office, principal place of business and any trading names.
- Details of the firm's controllers and senior managers.

6.14 Firms will not be assessed following their notification beyond demonstrating that they fulfil the eligibility criteria and have provided the necessary information. However, they will be required to attest that, from Regulation Day, they will comply with our rules. Where the criteria are met, the FCA will register the firm.

6.15 Notification for registration for the TPR will close 2 weeks before Regulation Day. The FCA will in due course publish directions relating to the process for registration for temporary permission, which will include the dates on which the notification period will open and close.

6.16 Any firm that is not registered for the TPR, and which does not have the relevant permissions, will not be able to undertake new DPC lending on or after Regulation Day. If a firm does not register for the TPR but wants to undertake DPC lending, it would need to apply for the relevant permission but would not be able to undertake that activity from Regulation Day until it became authorised.

6.17 However, firms without the necessary permissions will be able to continue to service agreements that were entered into before Regulation Day (which will remain unregulated).

6.18 Firms that have registered for the TPR but that subsequently decide they do not want to undertake new business after Regulation Day will be able to withdraw from the TPR. If a firm decides to withdraw from the TPR, its fee will not be refunded. Complaints relating to regulated DPC agreements entered into during the TPR will be within the Financial Ombudsman's CJ, even if the complaint is made after the firm exits the TPR without obtaining authorisation.

6.19 The TPR will commence on Regulation Day.

6.20 Firms in the TPR will be able to apply for full authorisation within a 6-month window following Regulation Day.

6.21 During the TPR, firms will generally be deemed to have a Part 4A permission (subject to specified exemptions) and therefore able to enter into regulated DPC agreements.

6.22 Firms in the TPR that are not authorised for another activity will not be SM&CR firms, so the SM&CR will not apply to them for as long as they hold a temporary permission. Firms that are already authorised for other activities but enter the TPR for a DPC activity, will be subject to transitional arrangements that effectively disapply the SM&CR for their DPC activities until they become fully authorised for them.

6.23 Firms' applications for full authorisation will be assessed in the usual way and the usual statutory timeframes will apply. As such, we will usually determine applications within 6 months if they are complete, or 12 months if they are incomplete.

Treatment of agreements made post-Regulation Day by firms that leave the TPR

6.24 New agreements entered into by DPC lenders in the TPR will be regulated credit agreements. DPC lenders that leave the TPR (see paragraphs 6.27-6.31), will be prohibited from entering into new agreements as they will no longer have a temporary Article 60B(1) permission.

6.25 However, to enable an orderly exit from the market, and avoid consumers experiencing poor outcomes if lenders have to abruptly stop all regulated activity, the Government's legislation establishes a Supervised Run-Off Regime (SRO) for DPC lenders that exit TPR without full authorisation.

6.26 Under this SRO, DPC lenders that entered into newly regulated credit agreements would be able to retain a temporary permission for Article 60B(2) activities for up to 2 years (see paragraph 6.29).

When temporary permission ends

6.27 Firms will exit the TPR at different times depending on the outcome of their application for full authorisation and if they have entered into any regulated DPC agreements after Regulation Day.

6.28 As a result, firms' temporary permission for entering into regulated DPC agreements as lender (Article 60B(1)) and agreeing to carry on a regulated activity (Article 64) permissions will end:

- Where we grant them full authorisation (when their application is approved) – the day from which the authorisation has effect.
- The day we issue a Decision Notice refusing their application (when their application is refused).
- The day after the date on which they give written notice that they withdraw their application for full authorisation (they withdraw their application).
- If they do not apply for full authorisation by the 'last application date', which will be the day 6 months after Regulation Day – the day after the last application date (they don't apply when directed to).
- The day after the date on which they give written notice that they wish to withdraw from the TPR (they withdraw before applying for full authorisation).

6.29 DPC lenders that exit the TPR because we issue a Decision Notice refusing their application, or because they withdraw their application for full authorisation, will retain temporary permission for 'exercising, or having the right to exercise, the lenders rights and duties' permission (Article 60B(2)) until the earliest of:

- The day on which they have collected in all sums owed under the agreements entered into after Regulation Day
- The day after the date on which they give written notice to us that they no longer want that temporary permission
- The date 2 years after the event that ended their temporary permission (i.e. the date we issued a Decision Notice or the date they gave written notice that they withdrew their application).

6.30 The 2-year time limit for the duration of the SRO is set out in the Government's legislation. This will ensure lenders can continue to service any agreements that have balances beyond the normal contractual term, for example where payment arrangements are in place.

6.31 We will continue to supervise firms in the SRO to ensure firms continue to deliver good customer outcomes.

Treatment of agreements that existed before regulation

6.32 DPC agreements that existed before regulation will continue to be exempt agreements. The introductory wording of new paragraph (7A) inserted into Article 60B of the RAO by Article 3(3)(b) of the Government's legislation makes clear that only agreements entered into on or after Regulation Day will be regulated DPC agreements.

Limitation on firm's permission

6.33 Firms in the TPR wanting to undertake DPC activities will have a limitation on both their temporary and full permission (should that be granted) which will limit their activity to DPC. If these firms want to undertake regulated credit activities for other regulated credit agreements, they would need to ask us to lift this limitation when they apply for full authorisation or apply for a Variation of Permission after authorisation if granted.

Supporting firms through the authorisation process

6.34 We want to authorise firms that provide high quality financial products and services. We have published information about our authorisations process, and what firms need to provide in support of their applications. We will maintain and add to the information for DPC related business models as we get closer to Regulation Day. We also plan to engage with firms that we expect will register for the TPR prior to applying to be authorised for DPC activities. If these firms have questions, they can contact us at deferredpaymentcredit@fca.org.uk.

Publishing details of firms in the TPR

6.35 We will display details of firms registered for the TPR on our website so that consumers can see what DPC-related activities a firm in the TPR is eligible to undertake.

Status disclosure for firms in TPR

6.36 Where firms are required to include disclosures about their regulatory status in their marketing or other material, they will need to make it clear they hold a temporary permission and have not yet got full authorisation (GEN 4.3.1R). We will update GEN to include a set of tailored status disclosures for firms with temporary permissions and for those that subsequently enter the SRO.

Question 21: Do you agree with our proposals for the TPR?

Annex 1

Questions in this paper

Question 1: Do you agree that our proposed rules will not have a material impact on groups with protected characteristics?

Question 2: Do you agree that our proposed rules for provision of information before entering a DPC agreement are appropriate?

Question 3: Do you think that reliance on the Duty could deliver our policy objectives for information provided before an agreement instead? If so, how?

Question 4: Do you agree that our proposed guidance for provision of information to customers during a DPC agreement is appropriate?

Question 5: Do you agree that our proposed new rules on providing information to DPC borrowers who have missed a repayment are appropriate?

Question 6: Do you agree that our proposed new rules requiring firms to give notice before taking certain actions are appropriate?

Question 7: Do you think that reliance on the Duty could deliver our policy objectives for our proposed new rules on firms' communications to DPC customers who have missed a repayment or where a firm intends to take certain actions instead?

Question 8: Do you agree that applying our current creditworthiness rules and guidance to DPC lending is appropriate?

Question 9: Do you have any views on the extent to which our approach to creditworthiness might inadvertently restrict access to DPC for customers who could afford it?

Question 10: Could we achieve appropriate outcomes if we relied substantively on the Duty instead (most notably the obligation to avoid causing foreseeable harm to consumers) rather than the creditworthiness rules in CONC 5.2A?

Question 11: **Do you agree with our proposal to apply our creditworthiness rules to DPC agreements of any value, or do you have views as to alternative approaches to small sum lending (including relying on the Duty)?**

Question 12: **Do you agree with our proposal for applying high-level standards and all other relevant Handbook provisions to DPC lenders?**

Question 13: **Do you agree with our overall approach to regulatory reporting? If not, why not?**

Question 14: **Do you agree that DPC should be subject to PSD returns? If not, what alternatives are there to requiring firms to submit PSD returns to meet our intentions?**

Question 15: **Do you agree that we should collect regular, predictable transaction level data? If not, why not? And how would you propose mitigating the risks of not collecting regular, predictable transaction-level data?**

Question 16: **Are there areas where firms may need longer implementation times? If so, how do you propose to mitigate any risks posed by a delay in firms providing us with data?**

Question 17: **Do you agree with our proposal to apply our rules in DISP Chapter 1 to DPC complaints?**

Question 18: **Do you agree with:**

- **The FCA's proposals to extend the Financial Ombudsman's CJ to DPC activities?**
- **The Financial Ombudsman's proposals to exclude pre-regulation DPC activities from the VJ?; and**
- **The Financial Ombudsman's proposals to expand the scope of the VJ to cover DPC activities carried on after regulation day from an EEA or Gibraltar establishment?**

If you disagree with the proposals, please provide details in your response.

Question 19: **Do you agree with the FCA's proposals to suspend complaints reporting rules for complaints arising from DPC activities for firms in the TPR until they become fully authorised?**

Question 20: **Do you agree with our proposal not to extend FSCS cover to DPC activities consistently with the approach to other consumer credit activities? If not, please provide details on why you think DPC should be treated differently.**

Question 21: **Do you agree with our proposals for the TPR?**

Question 22: **Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons and provide any evidence you can.**

Question 23: **Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?**

Annex 2

Cost benefit analysis

Summary

1. Deferred Payment Credit (DPC), also known as unregulated Buy Now Pay Later (BNPL), is a relatively new form of borrowing that allows for short-term zero-interest loans to be offered to consumers without firms needing to be authorised by the FCA or to comply with the Consumer Credit Act (CCA).

2. DPC is primarily offered as part of an online checkout process and enables borrowers to defer payments to a later date, typically up to three months. The market has grown rapidly to close to 11m consumers in 2024 (FLS, 2024) spending over £13bn annually (DPC market data, 2024). Borrowers typically use the product to smooth consumption, taking advantage of zero interest. DPC users are often younger, earn lower incomes, and exhibit characteristics of financial distress.

3. While DPC works well for many consumers, information asymmetries, behavioural distortions, and misaligned incentives can mean some consumers lack understanding of the product and its associated risks and spend more than they had intended. This can lead to unnecessary late fees, increased indebtedness and unaffordable borrowing. This ultimately results in reductions in wellbeing for consumers.

4. His Majesty's Treasury (HMT) has recently legislated to bring DPC lending under our regulation. HMT has decided not to apply the provisions of the CCA requiring the provision of information. HMT has produced an impact assessment (IA) for bringing DPC into the regulatory perimeter which considers the costs of FCA authorisation, compliance with the CCA, and compliance with some FCA rules.

5. Inside our regulatory perimeter, we are proposing to apply many of the same rules to DPC lenders as we apply to other consumer credit firms, only creating bespoke rules where necessary to deliver appropriate consumer protection in the absence of certain CCA requirements.

6. This CBA assesses the impact of applying FCA rules to DPC firms, including high-level standards such as the Consumer Duty. We acknowledge that there is some potential double counting between HMT's IA and this CBA with respect to the costs of authorisation, costs of FCA rule compliance and costs to the FCA to bring DPC into regulation. However, these have been included in this CBA because FSMA section 138I requires us to assess the cost of all FCA rules to firms. However, these potential areas of double counting of costs are relatively small compared to the largest cost drivers.

7. Our proposed regulation will affect the demand and supply of DPC. We expect that to affect the number of DPC transactions. For example, consumers may make different borrowing decisions when they have more information, or they may not meet creditworthiness requirements. Fewer transactions will reduce DPC firms' transaction fees, late fees, and profits. Merchants will also be adversely affected unless consumers substitute to a different way of paying or defer their purchase. However, this should be seen in the context of a large and fast-growing market which we expect to remain highly profitable.

8. Our central present value estimate of total benefits from our proposals over a 10-year appraisal period is £2.4bn. These benefits largely accrue to consumers through a reduction in late fees paid (£440m) and improvements in wellbeing (£1.4bn), primarily due to fewer debt collection events. We expect that late fee payments will be reduced through fewer consumers being extended credit they cannot afford, more consistent provision of information improving understanding of risk, and an improvement in understanding of the consequences of missing payments (such as late fees).

9. Consumer wellbeing will be improved through fewer negative outcomes such as debt collection events, and they will receive better treatment when in financial difficulty. We expect that there will also be significant further unquantified benefits from increased financial resilience by taking on less debt and reducing their spending, leading to the avoidance of problem debt.

10. We expect lower-income consumers will receive greater relative benefits from these proposals compared to other consumers. This group of consumers are more likely to have characteristics of financial distress and so will benefit more from the protections we are putting in place, such as affordability assessments and greater forbearance.

11. Merchants will stand to benefit through paying lower fees on transactions that are completed through alternative payment methods rather than DPC, such as credit or debit cards (£582m). We also expect that there will be benefits to DPC firms through lower loss provisioning for bad debts following more stringent creditworthiness assessments and more informed consumers. Improved trust and confidence in their product once it's regulated may also lead to an increase in usage as consumers are more willing to use regulated products.

12. Costs are primarily driven by reductions in transactions compared to a baseline of DPC remaining outside the regulator perimeter with assumed significant and sustained growth in the market. A modelled reduction in transactions as a result of our proposals is shown to result in lost profits for both DPC lenders (£1.2bn) and merchants (£1.4bn) but we still model total profits of £4.1bn and £14.7bn, respectively. There are also compliance costs to lenders (£0.2bn), which is the main area of potential double counting with the HMT IA. Overall, we estimate a central estimate of total net direct costs to business, DPC firms and merchants of £2.7bn. This is equivalent to estimated annual net direct cost to business of £337m.

Table 1: Summary of costs and benefits (10 years, present values, central estimates)

		Benefits	Costs
Total	**One-off**		£18m
	Ongoing	£180m	£222m
	10-years (PV)	£2,412m	£2,743m
Consumers	**Reduction in late fees, due to creditworthiness and information requirements**	£408m	
	Increase in wellbeing, due to creditworthiness	£1,423m	
	Avoidance of problem debt & reduced indebtedness, due to fewer transactions	Unquantified	
	Greater regulatory protections, due to application of FCA rules	Unquantified	
	Loss of access, due to creditworthiness assessments		Unquantified
DPC firms	**Compliance costs, due to application of FCA rules**		£204m
	Reduction in merchant fees, due to fewer transactions		£929m
	Reduction in late fees, due to creditworthiness and information requirements		£243m
Merchants	**Loss in profits, due to fewer transactions**		£1,367m
	Reduction in merchant fees, due to lower fees	£582m	
Other payment and credit firms	**Displaced transaction fees, due to consumers switching products**	Unquantified	

Source: FCA calculations

13. DPC firms support consumption in the economy, which can in turn contribute to growth. We estimate that DPC currently accounts for 10% of clothing, fashion and footwear purchases. To the extent that this is sustainable, any reduction in transactions could result in lower growth in the economy. Although, as noted above, regulation can improve trust and confidence, and the increased security of transactions may cause them to recover back to baseline levels.

14. Overall, we expect the regulation of DPC to deliver significant net benefits and is proportionate. The proposed rules aim to offer greater clarity and be less burdensome than existing CCA requirements. DPC is a large and currently unregulated market, posing risks to millions of consumers. We note that the quantified costs are expected to exceed the quantified benefits. However, we also consider that there are significant unquantified benefits arising, in particular, from reduced indebtedness, increased financial resilience, and wider regulatory protections. We also expect DPC firms to remain profitable through continued growth in the market, partially from increased consumer trust and confidence resulting from regulation, and that merchants would retain many profits as consumers switch to alternative payment methods, utilise savings, or delay their purchases.

15. For our proposals to breakeven, borrowers would, on average need, to yield additional quantified benefits of £30.65 over the 10-year appraisal period which we believe is plausible.

Introduction

16. Deferred Payment Credit (DPC), also known as unregulated buy now pay later (BNPL), is a relatively new form of lending that leverages an exemption in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (RAO). This exemption allows providers of DPC to offer interest-free loans to consumers without requiring authorisation by the FCA and complying with its rules or the requirements of the Consumer Credit Act (CCA). These loans are repayable in 12 or fewer instalments, with a term of less than 12 months. Consumers here can include certain SMEs within scope of the credit regime when referred to in this CBA.

17. His Majesty's Treasury (HMT) has legislated to narrow this exemption which will bring DPC into the FCA's regulatory perimeter. The government has taken the decision not to apply the CCA requirements on firms to provide information to borrowers of DPC when it becomes regulated. We are proposing to apply many of the rules that other consumer credit firms are required to follow – and create bespoke rules where necessary to deliver appropriate and proportionate consumer protection in the absence of the CCA requirements that will not apply to DPC.

18. HMT published an impact assessment (IA) alongside their SI which estimated the costs and benefits of bringing DPC into the FCA's regulatory perimeter. Their analysis also assesses some of the rules the FCA proposes to apply to these firms. Our CBA assesses the impact of the proposed application of FCA rules to firms being brought into the perimeter, including those in HMT's IA.

19. The Financial Services and Markets Act (2000) requires us to publish a full cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

20. This analysis presents estimates of the significant impacts of our proposal. Where reasonably practicable, we provide monetary values and where not, we give a qualitative explanation of expected impacts. We set out the relationship between this CBA and HMT's IA in the summary of impacts sections.

21. This CBA has the following structure:

- The market
- Competition
- Problem and rationale for intervention
- Options assessment
- Our proposed intervention
- Baseline and key assumptions
- Summary of impacts
- Benefits
- Costs
- Risks and uncertainty
- Competition assessment
- Wider economic impacts
- Monitoring and Evaluation
- Consultation with the CBA Panel

The Market

What is DPC?

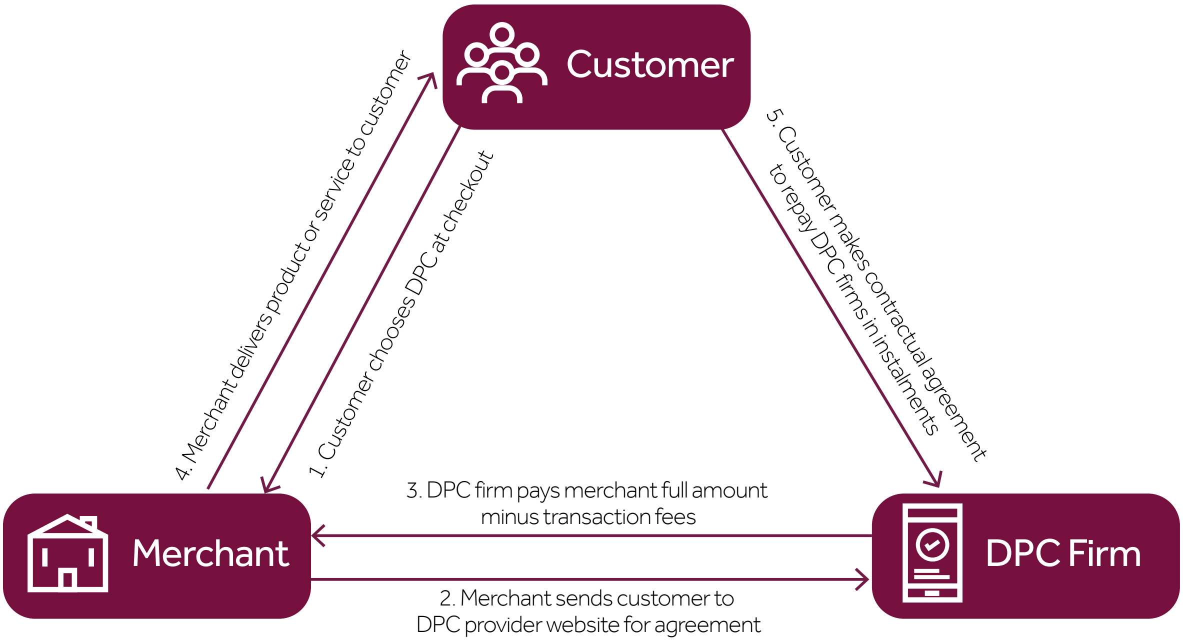
22. DPC is primarily offered online as a checkout option on merchant websites, alongside other payment methods like debit or credit cards. However, DPC use is expanding beyond the core e-commerce space, and is increasingly available in physical retail stores, where transactions can be completed using scannable barcodes or QR codes.

23. Some merchants offer their own point-of-sale credit agreements, which they extend directly to consumers, rather than through a third-party DPC provider. These agreements are not being brought into the regulatory perimeter by HMT and are not included in the description of the market below.

24. There are two types of DPC products: pay-in-instalments, where the customer pays a portion of the total purchase price upfront and repays the remainder in instalments; and deferral of the entire payment to a later date, typically 14 or 30 days. We estimated that in October 2024, four-fifths of approved DPC transactions were of the pay-in-instalments type; this is based on FCA analysis of transaction-level data.

25. Figure 1 sets out the relationships between the parties involved in a typical DPC transaction: the customer, the merchant, and the DPC provider. When a customer selects the DPC option at checkout, they are usually required to log into their account with the DPC provider or create one. This process allows the platform to verify the customer's identity and assess their eligibility for credit.

Figure 1: Typical DPC transaction



26. If the application for credit is approved, the DPC provider pays the merchant the full amount minus a transaction fee. These transaction fees, paid by the merchant to the DPC provider, typically range from three to five per cent and are the primary source of revenue for DPC providers. The DPC provider assumes the credit risk, while the customer is responsible for repaying the loan, either in instalments or as a lump sum at the deferred date.

27. Since DPC lending is currently unregulated, there is no requirement for DPC firms to undertake creditworthiness assessments. However, many transactions undergo some form of credit assessment. The extent of these checks varies considerably among DPC providers. Some providers conduct hard credit checks with a credit reference agency, which involve a comprehensive review of the customer's credit report and may affect their credit score. Others perform less invasive 'soft' checks or determine creditworthiness based on the customer's history with their platform, such as previous repayment behaviour or account activity. Some providers do not conduct any credit checks at all.

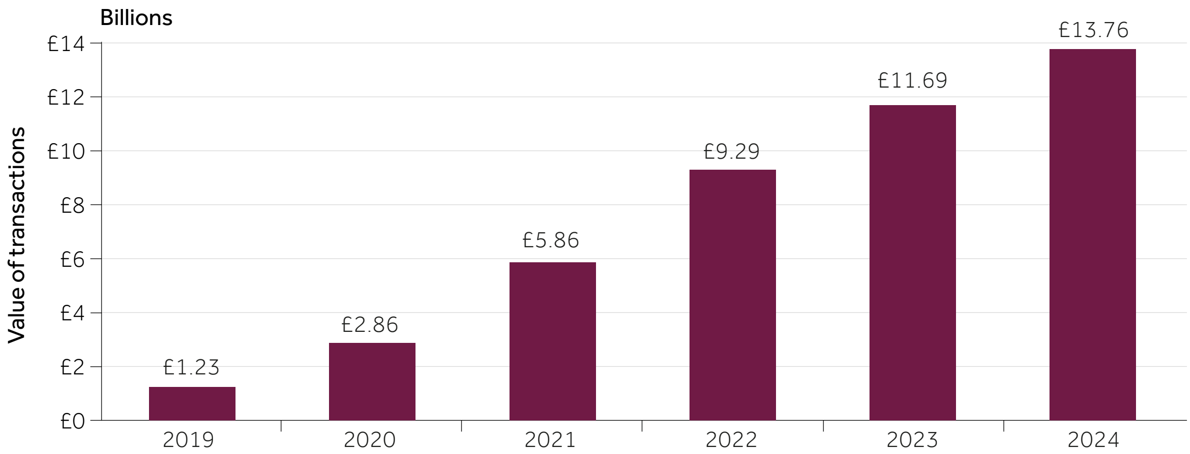
28. There is also evidence of some DPC providers using counteroffers as part of their approval process. Counteroffers refer to alternative arrangements whereby a customer who has not met the credit requirements necessary for the DPC product they are attempting to use, is offered the credit under different terms, such as a shorter repayment period or a higher upfront payment.

29. While firms do not charge interest on their credit agreements in order to benefit from the RAO exemption, some do charge late fees when payments are missed, and this can make up a reasonable portion of their revenue, up to 18% for some firms (Firm survey, 2024).

Size, growth and composition of the DPC market

30. Figure 2 illustrates the substantial growth of the DPC market. We estimate that from 2019, the value of transactions increased from £1.3bn to over £13bn in 2024. According to our 2024 Financial Lives Survey (FLS), 20% of UK consumers (10.9 million adults) have used DPC in the 12 months leading up to May 2024.

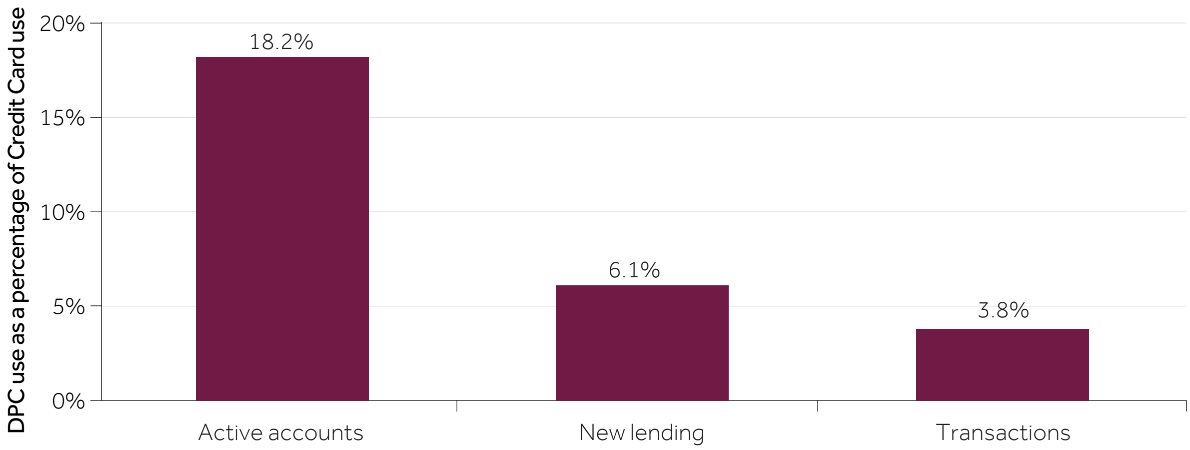
Figure 2: Total value of transactions



Source: Firm data, FCA calculations
2024 figures are based on first 10 months and uprated to 12 months on a pro-rata basis

31. Despite its rapid growth, the DPC market remains modest in size when compared to the credit card market. Figure 3 compares estimates of the number of active accounts, new lending and transactions from data provided by the largest three DPC firms, with corresponding estimates for credit cards from UK Finance data in October 2024.

Figure 3: DPC lending compared to credit cards (October 2024)

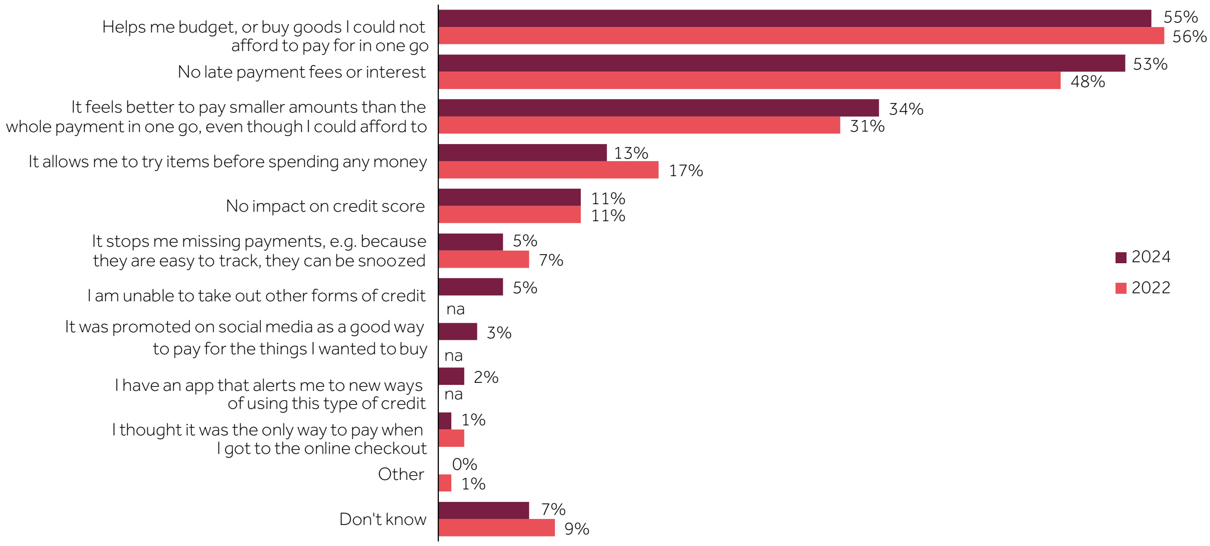


Firm data, FCA calculations
Credit card data is from the UK Finance Card Spending Update – December 2024; DPC data is from FCA firm submissions. Active credit card accounts are defined as those with a balance outstanding on the final day of the month, whilst DPC active accounts are those with a transaction and outstanding balance in October 2024. New lending for credit cards is total gross credit issued (refunds not netted), consistent with DPC, which captures the value of purchases in October 2024. Transactions refer to the number of credit card or DPC transactions in that month.

Why do people use DPC?

32. In principle, DPC offers consumers a low-cost option to smooth consumption over a short period of time at no additional cost. The most common reasons borrowers give for use (see Figure 4) are that it helps with budgeting, does not carry fees or interest, and that it feels like they are spending less money. However, 5% of borrowers are using the product as they cannot take out other forms of credit and 11% because they think it will not impact their credit score. This suggests that DPC may be the only option for some borrowers and can provide access to credit for individuals that would otherwise go unserved.

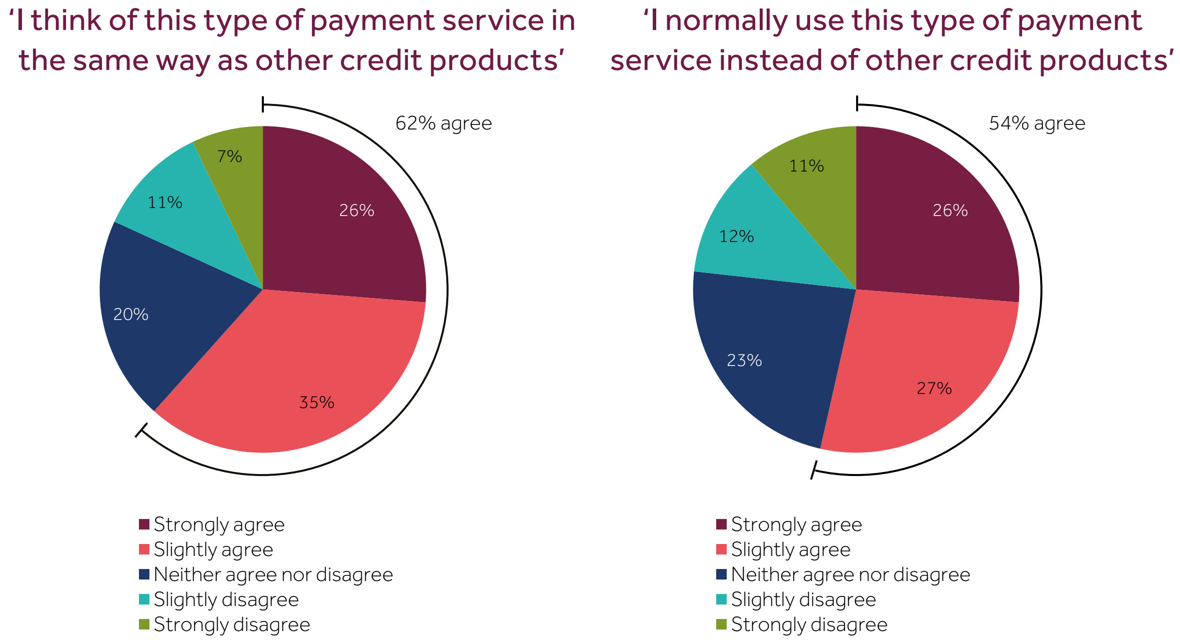
Figure 4: Reasons for using DPC (2022/2024)



Source: Financial Lives Survey (2024)
Base: All UK adults who have used any DPC payment service, where they never pay any interest but defer or split payments (2022: 1,232/2024:1,778)
Question: DPC1. Why do you choose to use this type of payment service?

33. Nearly a fifth of borrowers do not think of DPC in the same way as other credit products and just over half use it instead of other credit products.

Figure 5: Extent to which DPC holders agree with the following statements about their preferences for using DPC compared to other forms of credit



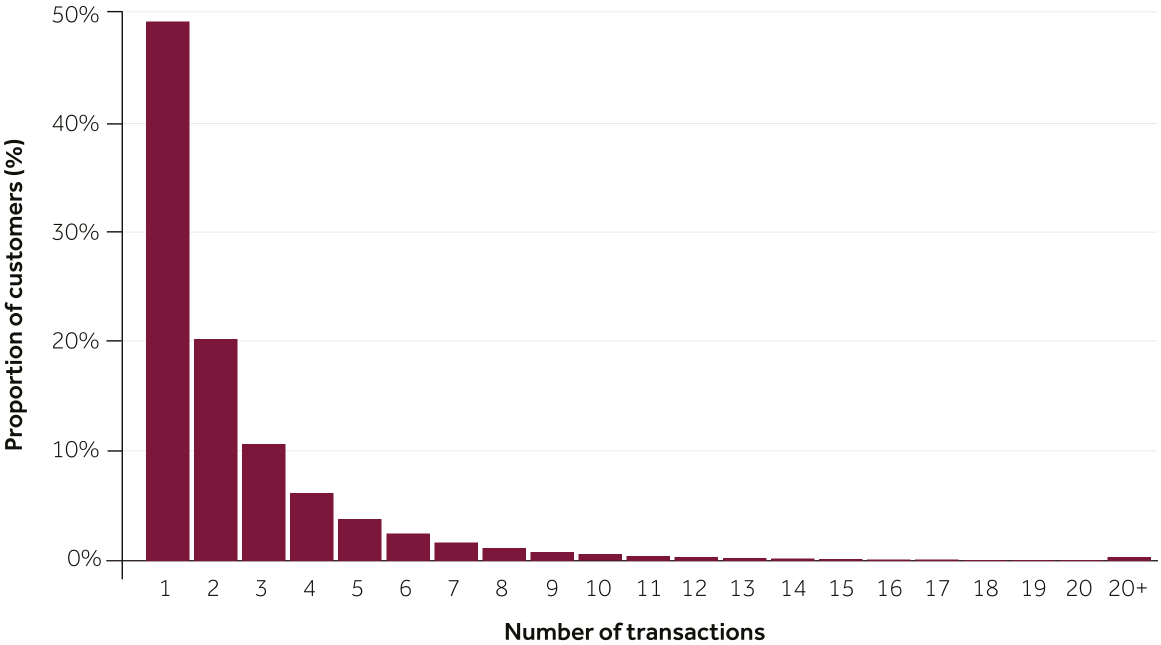
Source: Financial Lives Sruvey (2024)
Base: All UK adults who have used deferred payment credit (ie unregulated Buy Now, Pay Later) in the last 12 months (2024:1,778) excluding 'don't know' responses (5%/5%)
Question: DPC11D_a/b. How much do you agree or disagree with the following statements about this type of payment service?

34. Borrowers also often state the user journey and ease of the product as a key driver of their use. 85% of DPC borrowers agreed that "It is very simple and straightforward to apply for this type of payment service" (FLS, 2024). Similarly, 89% thought it was easy to keep track of their repayments. However, as borrowing rises, it can be more difficult, 77% of consumers with over £500 of DPC found it easy to keep track of repayments.

How do people use DPC?

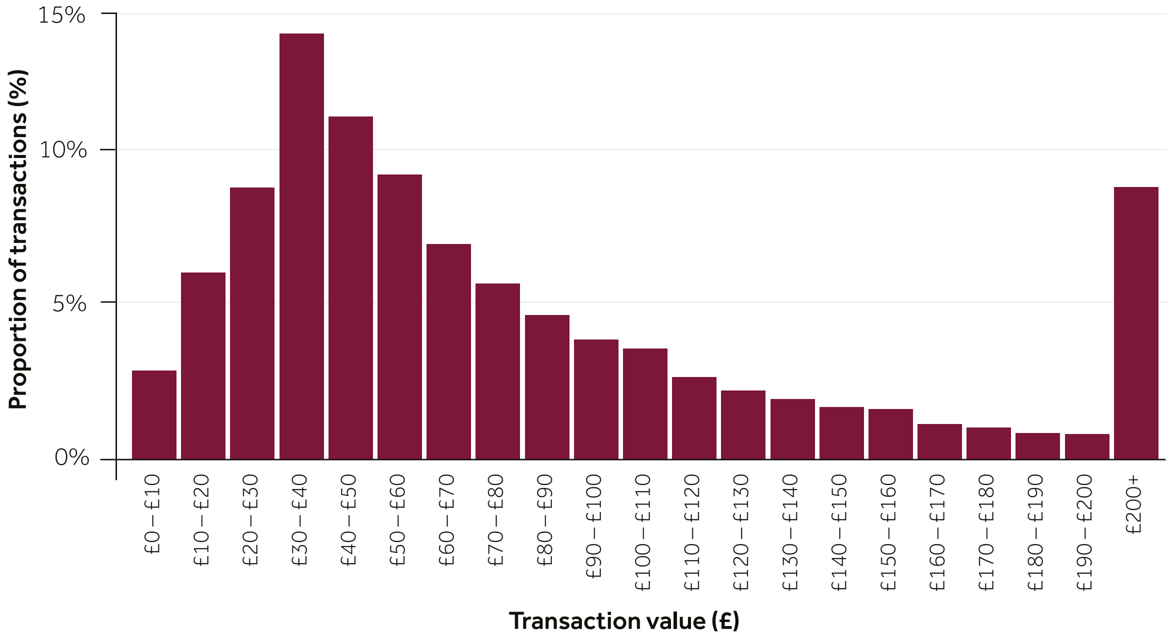
35. Between October 2023 and October 2024, the last year for which we have transaction-level data, we estimate the average (mean) transaction value for DPC provided by the largest three firms was around £88. Active users in each month typically borrowed a total of £168 across all of their DPC purchases, with each user making an average of 2.6 transactions per month.

Figure 6: Frequency of DPC use per customer between October 2023 and October 2024



Firm data, FCA calculations

Figure 7: Distribution of transaction values between October 2023 and October 2024

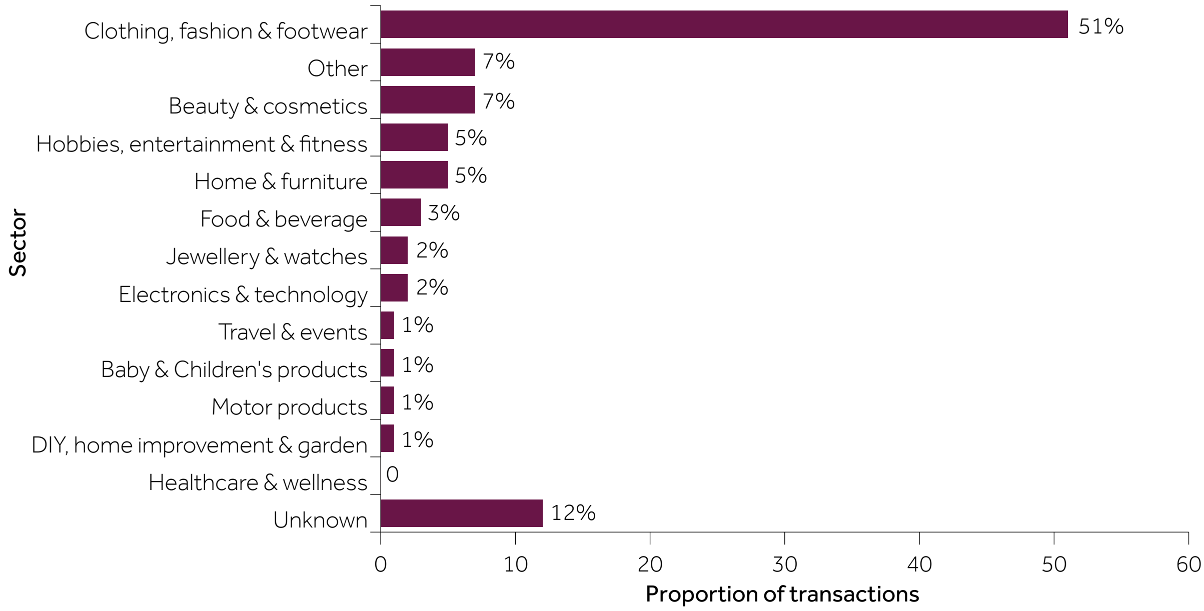


Firm data, FCA calculations

36. Our analysis of the transactions level data provided by the largest three DPC firms show that the majority of DPC transactions (51%) are in the clothes, fashion and footwear sector. However, this represents a notable decline from 2022, when this sector accounted for 66% of DPC transactions. This shift reflects a growing diversification in the use of DPC across other retail categories. While the share of spending on fashion-related purchases has fallen, the total transaction value across the DPC market continues to rise, including

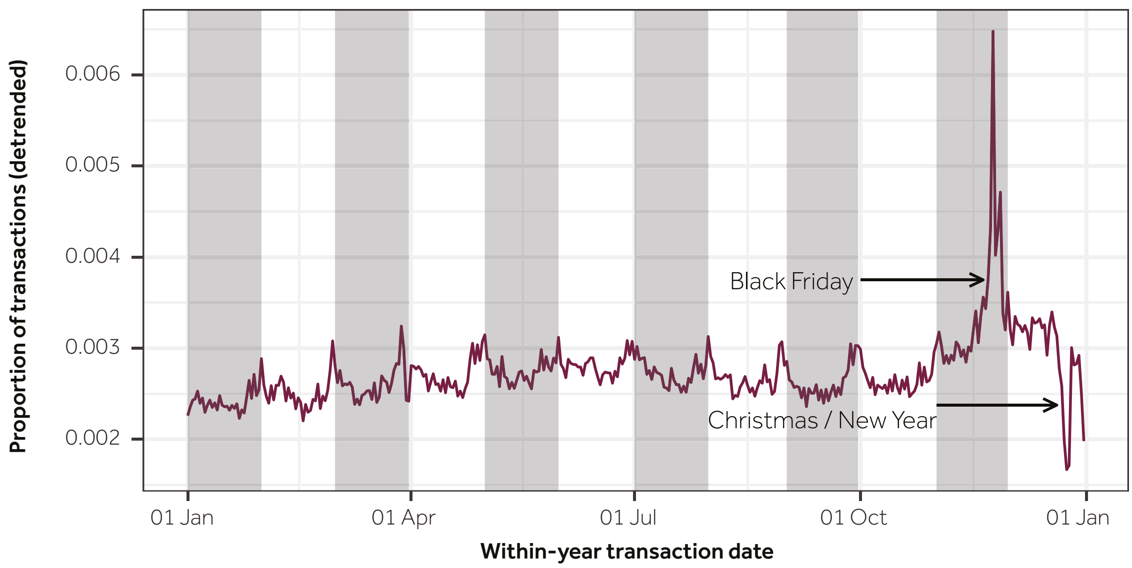
within fashion, indicating overall market growth. This redistribution of spending across a broader set of sectors is also a typical feature of a maturing market, as consumers begin to adopt DPC products for a wider range of purchase types and needs. Klarna discuss the correlation between market maturity and vertical diversification on page 130 of their Registration Statement filed with the U.S. Securities and Exchange Commission (SEC). Vertical diversification refers to the expansion of Klarna's services across a broader range of merchant categories or industries – such as electronics, beauty, and travel – rather than concentrating on a single sector.

Figure 8: DPC transactions by sector



Firm data, FCA calculations

Figure 9: DPC transactions by day of year



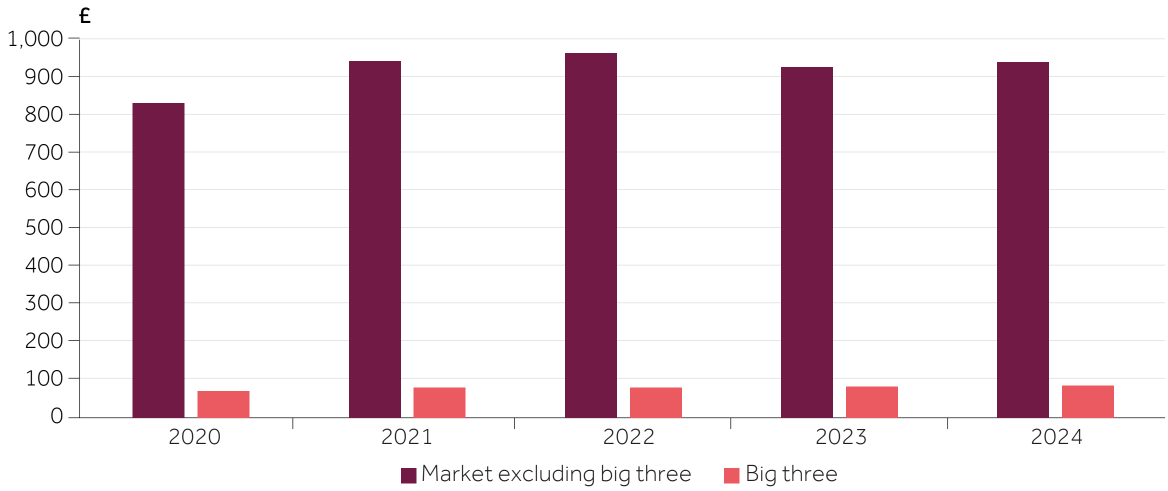
Firm data, FCA calculations
Before plotting this graph, we removed the secular growth trend in number of transactions across the year. This step was necessary to avoid a sharp discontinuity at the cutoff date of our dataset (31 October). Without adjustment, the most recent transactions would appear artificially low, as they are nearly a year older and reflect a period with lower overall transaction volumes. To account for this, we fitted a fourth-order polynomial to model the growth trend based on the number of days since 31 October, and then used the residuals for the analysis.

37. We also observe that DPC use spikes around Black Friday, suggesting that many consumers make use of DPC products to increase their spending during the sales event. In addition, smaller but consistent spikes at the end of each month indicate that some consumers may be using DPC as a short-term means of bridging the gap to their next payday, highlighting its role not just in discretionary spending but also in managing cash flow.

38. The figures and charts presented in this section relate to how DPC is used by consumers signed up at one or more of the three largest DPC providers. We note that smaller DPC providers typically cater to consumers making bigger ticket purchases, as shown below. Many of these smaller firms provide specialist DPC for higher-value purchases, such as vehicle repairs or jewellery that can support consumption smoothing and enable larger one-off purchases at low cost.

39. DPC users often take advantage of the favourable terms to use the product as try-before-you-buy and the market is characterised by high rates of returns. From 2019-24 18% of transactions by value were returned.

Figure 10: Average transaction value "big three" vs other DPC providers



Firm data, FCA calculations

Who uses DPC?

40. DPC use is widespread, 20% of adults reported (10.9m) using the product in the last 12 months in the FLS, a three-percentage point increase from 2022. This makes it the third most used consumer credit product in the UK by number of borrowers, behind credit cards, with 35.3m borrowers, and overdrafts, with 11.4m.

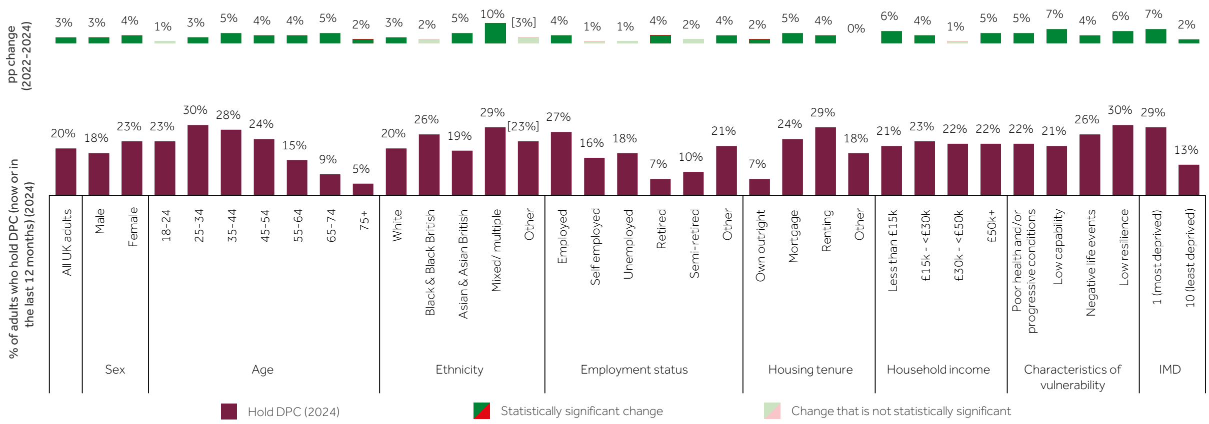
41. Figure 11 shows the breakdown of DPC users by demographic group. DPC users were:

- **More likely to be women** – 23% of women were DPC users, compared to 18% men.
- **Younger** – 30% those aged 25-34 were DPC users, compared to 5% of those aged 75+. It was higher for women aged 25-34 (35%).
- **Use was higher among Black adults** (26%) compared to White adults

- **Employed** – 27% of the employed were DPC users, compared to 18% of the unemployed.
- **Renting** – 29% of those in rented accommodation were DPC users compared to 24% of those with a mortgage.
- **Earning similar income** – DPC use was similar across different income groups.
- **Less resilient** – 30% of those with low resilience, meaning they are less able to withstand financial shocks, were DPC users, compared to 20% of UK adults. 40% of lone parents reported using it.
- **In lower deciles of the index of multiple deprivation (IMD)**[1] – 29% of those who live in the most deprived decile were DPC users, compared to 13% of those who live in the least deprived decile. The IMD is a measure of relative deprivation for small geographic areas in the UK.

42. DPC users have lower resilience and are more likely to be in the bottom three deciles of the index of multiple deprivation, which could make them more at risk of increased indebtedness. Evidence has shown that there is a positive relationship between local authorities with the highest proportion of income and employment deprivation and levels of unsecured debt[2].

Figure 11: Adults who hold deferred payment credit (now or in the last 12 months) and percentage point change since 2022, across a variety of demographic segments (2024)



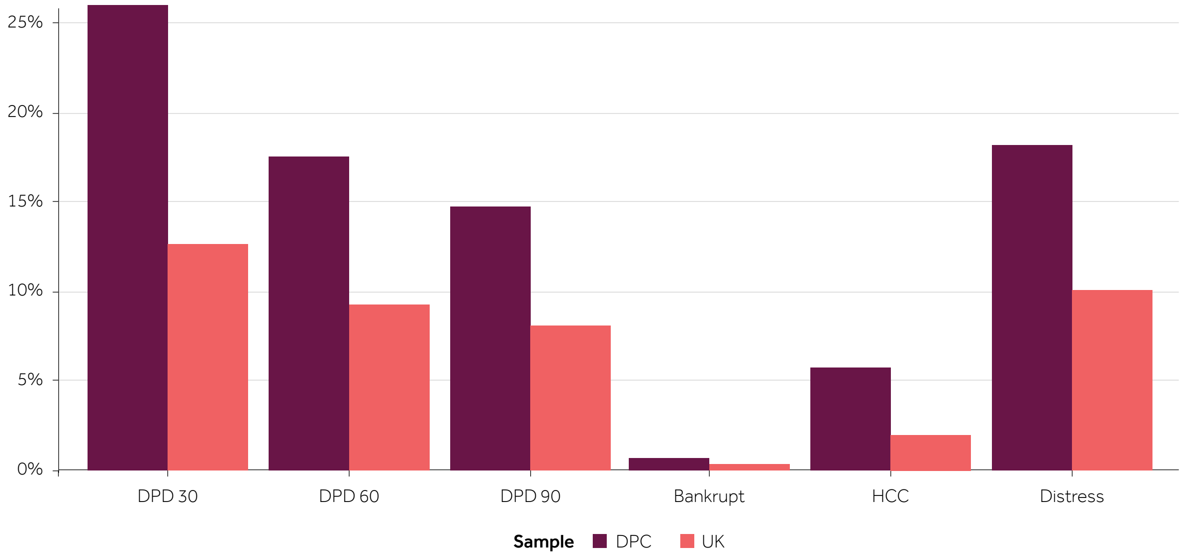
Financial Lives Survey 2024
Base: All UK adults (2022:19,145/2024:17,950)
Question: POSum1. Product holding summary 1

43. Figure 12 sets out these comparisons to a sample of the UK population from in the CRA data and shows that DPC borrowers are more than twice as likely to exhibit these measures of financial distress than non-DPC borrowers.

1 The Index of Multiple Deprivation (IMD) datasets are small area measures of relative deprivation across each of the constituent nations of the United Kingdom. Areas are ranked from the most deprived area (rank 1) to the least deprived area.

2 Hutchison, N.E., Tiwari, P., Koblyakova, A., Green, D. and Tan, Y.L., 2024. Spatial disparity in household indebtedness across the UK. Journal of European Real Estate Research, 17(3), pp.431-451.

Figure 12: Measures of financial distress DPC vs UK population



Firm data, CRA data, FCA calculations
Samples of 772,548 DPC users and random sample of 1,240,305 UK individuals. 2022 CRA data. DPC are users who transacted at least once in 2022. No age or income weightings.
Note: Objective vulnerability measures based on 2022 CRA data and a successful DPC transaction in 2022 for those matched to CRA data. UK population includes DPC users. DPD refers to Days Past Due (i.e. arrears). HCC refers to users of high-cost credit which includes HCSTC, home credit, rent-to-own, guarantor, logbook, and running account. Distress means 90 Days Past Due on any credit product, has active county court judgement, bankruptcy or debt sold.

Firms

44. Because DPC is unregulated, we do not hold precise information on the number of firms which offer DPC. Our desk-based research suggests that the majority of firms offering DPC products (16) are already authorised for other activities, such as regulated lending, and 8-10 are unauthorised.

Merchants

45. Firms can have direct or indirect relationships with merchants. Direct relationships involve lenders having an individual agreement with the merchant to offer their product, whereas indirect relationships involve DPC being offered through an intermediary, such as a payment service provider.

46. DPC has been adopted as a payment method by many merchants over the last five years and is widely accepted. Respondents to our firm survey reported partnerships with over 300,000 merchants in 2024, rising from around 15,000 in 2019.

47. Merchants pay higher transaction fees for DPC than for other payment methods such as credit or debit cards, but evidence suggests they benefit from larger transactions and better conversion rates. Academic studies have found increases of 6-10% while DPC lenders claim boosts of more than 20 or 30%. We set out this evidence in more detail in paragraph 274.

Competition

Market definition

48. The UK consumer credit market comprises a wide range of products that allow consumers to access funds or defer payment for goods and services. These products include credit cards, personal loans, overdrafts, hire purchase agreements, store cards, and DPC. The DPC market is distinct but closely related to currently regulated consumer credit products (particularly credit cards), digital wallets, and alternative lending platforms. However, the functionality, marketing, and user experience distinguish BNPL as a discrete segment within the wider consumer credit ecosystem suggesting it is not a direct substitute for credit cards or other products, even if some credit card providers offer instalment plans to allow customers to 'compartmentalise' specific purchases in a manner similar to DPC. The DPC market is defined by high accessibility, rapid take-up, and the absence of standardised credit reporting or affordability checks, which distinguishes the current DPC market from other regulated forms of consumer credit.

49. DPC is a two-sided market that connects two distinct groups of users, merchants and consumers, and facilitates interactions between these groups. This structure gives rise to strong network effects, where the value of the product increases with broader adoption[3]. As the number of consumers using DPC grows, there is a greater incentive for merchants to offer the product; likewise, as the number of merchants offering the product grows, there are more opportunities for consumers to use it. This feedback loop can accelerate DPC platform growth. These same dynamics can also lead to market concentration, with a small number of DPC providers rapidly achieving a dominant share of users on both sides of the market. This concentration may, in turn, give DPC platforms greater pricing power in, for example, the transaction fees charged to merchants.

Market structure and business models

50. A third-party DPC provider is an independent entity that offers DPC products separate from the retailer. These providers facilitate credit agreements that allow consumers to defer payment or pay in instalments at the point of sale. They typically manage credit risk, payment collection, and customer interactions, and integrate their services across multiple merchants' checkout processes, distinguishing them from retailer-operated credit offerings.

51. There are relatively few third-party DPC providers and the three largest account for over 90% of the market, based on data received in response to our 2024 firm survey.

52. DPC business models in the UK vary in how credit is structured, delivered, and monetised. Most commonly, DPC providers extend short-term, interest-free credit directly to consumers at the point of sale. This is referred to as a business-to-consumer (B2C) model. Other models combine this with business-to-business (B2B) services, in which providers offer retailers tools such as payment processing, customer acquisition

3 https://www.tse-fr.eu/sites/default/files/TSE/documents/doc/wp/2021/wp_tse_1238.pdf

features, or integration support to enable the use of DPC at checkout. In some cases, providers operate as white-label platforms, meaning they supply the underlying technology or credit infrastructure that allows retailers to offer DPC products under the retailer's own brand, rather than the provider's. These other models will only be in scope of regulation, where they meet the criteria set out in the RAO.

53. Some merchants also offer their own DPC options and extend the credit to consumers themselves, in a similar way to alternative interest-bearing retail finance products such as catalogue credit. These will remain exempt from regulation and so we do not in general assess them in this CBA.

Barriers to entry and expansion

54. With respect to DPC, there are potentially high barriers to entry in the market to compete at scale. The following barriers to entry are the characteristics that give incumbent firms an advantage over new entrants:

- **Network effects** – DPC providers derive value from broad merchant and consumer uptake. As more merchants adopt a provider's service, the product becomes more visible and attractive to consumers; in turn, high consumer usage makes the service more appealing to additional merchants. This two-sided network effect raises the scale threshold required for new entrants to be competitive.
- **Brand recognition and consumer trust** – DPC products depend on consumers' willingness to adopt and reuse a specific provider at checkout. Brand familiarity and perceptions of trustworthiness are built over time, often through repeated exposure and positive user experience. These attributes are difficult for new entrants to replicate quickly.
- **Customer loyalty** – Beyond brand recognition, some DPC users exhibit platform loyalty as they return to familiar providers due to ease of use, app integration, or past repayment history. This can lead to switching frictions that favour incumbent providers, even in the absence of explicit lock-in.
- **Data-driven early mover advantages** – Established providers benefit from access to proprietary behavioural and transactional data, which supports more accurate credit risk modelling, fraud detection, and targeted marketing. These data advantages accumulate over time, raising barriers for later entrants.
- **Economies of scale** – Larger DPC providers may achieve lower average costs by spreading fixed costs, such as compliance, technology development, and customer support, over a larger volume of transactions. This may allow them to offer more competitive terms to both merchants and consumers.
- **Sunk entry and setup costs** – Entering the market often requires significant upfront investment in technology infrastructure, legal compliance, merchant integration, and brand development. These costs are largely unrecoverable in the event of exit, creating a deterrent to entry.

Competitive dynamics - DPC

55. As DPC is free at the point of use, competition for consumers centres on non-price dimensions:

- **Product differentiation** – Providers compete through features like flexible payment schedules, in-app shopping ecosystems, and discount codes, and budgeting tools.
- **Approval criteria:** Firms vary in their use of credit file searches, creditworthiness and affordability assessments, and repeat-use risk algorithms. This influences both conversion rates and consumer inclusion.
- **Technology and user experience:** Fast checkout, mobile-first interfaces, and real-time decisioning are now standard expectations.
- **Marketing** – Firms have different marketing approaches and will focus on different consumer segments depending on their risk tolerance or demographics. For example, by offering products to specific markets only.

56. Competition for merchants is focused on price and basket conversion:

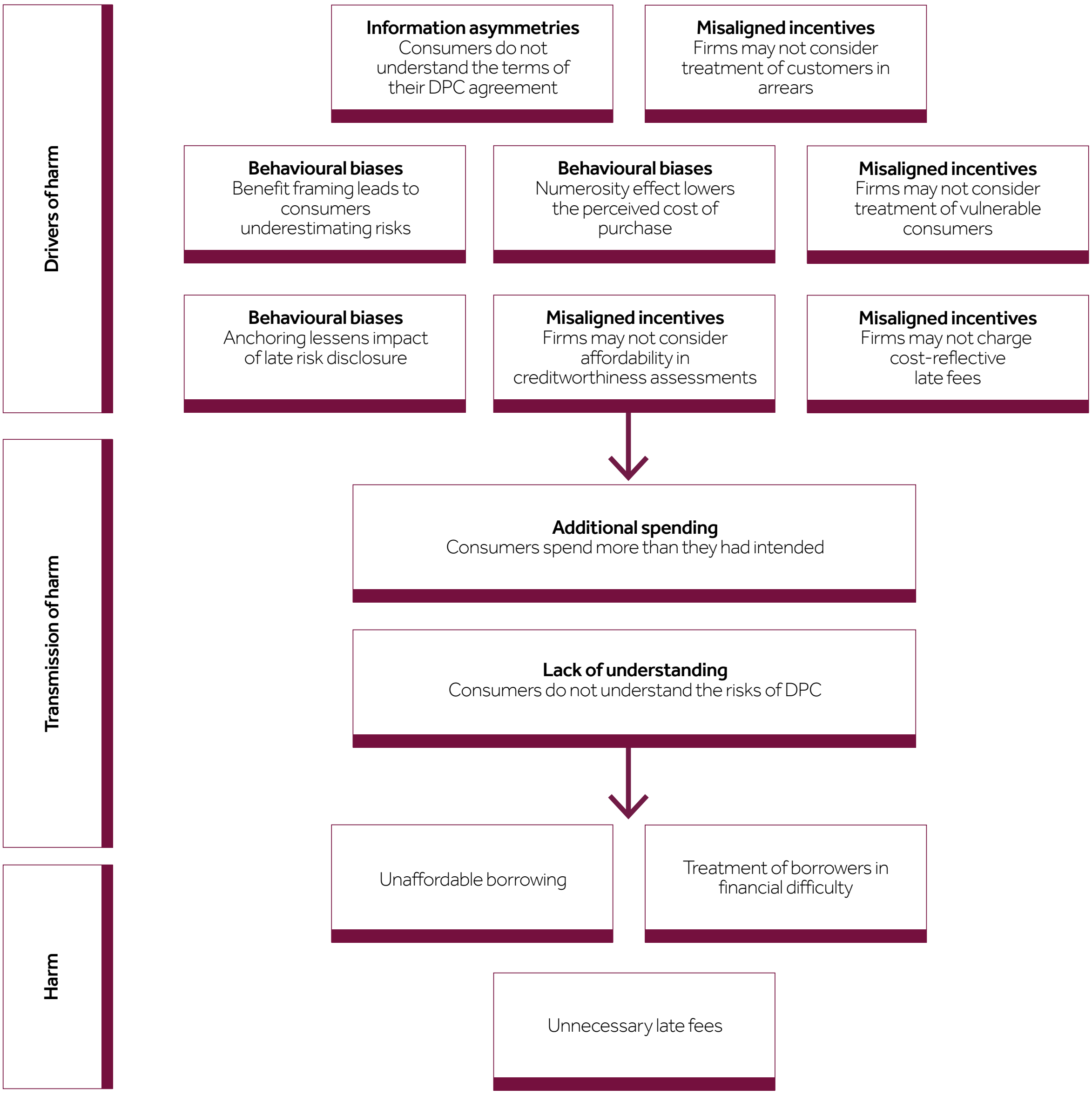
- **Merchant acquisition and fees:** Merchant fee structures typically range from 3% to 5% per transaction. Larger BNPL firms use tiered pricing, rebates, and co-marketing to retain merchant loyalty.
- **Basket conversion:** Merchants are concerned with increasing both the volume of purchases and size of baskets which DPC firms will look to support growth in.

Problem and rationale for intervention

Drivers of harm

57. We understand there to be three main drivers of harm for DPC. First, there are misaligned incentives between DPC providers and borrowers, meaning that firms may not necessarily act in the interest of consumers. Second, the product is sold in a way that can encourage consumers to spend by exploiting behavioural biases. Third, information asymmetries exist between firms and consumers.

Figure 13: Harms in the DPC market



Misaligned incentives

58. DPC firms are incentivised to maximise profits which can come at the expense of consumer wellbeing and protection. There are risks that firms do not properly:

- **Assess affordability** – Firms are primarily concerned with ensuring that a borrower will repay their debt, regardless of how they achieve this. This can mean that consumers take on debt they cannot afford and result in them forgoing essential expenditure or taking on other debt to meet repayments.
- **Treat customers in arrears fairly** – Customers in arrears represent potential lost income. This can incentivise firms to either extract additional revenue from borrowers through disproportionate late fees, or pursue aggressive measures to recuperate their lending.

- **Treat vulnerable customers fairly** – Firms may not currently assess whether their customers are vulnerable and require additional support, nor provide this support where necessary.

59. Although some firms, particularly those that already offer regulated credit agreements, go some way to satisfying the above areas for DPC agreements, these standards are not provided uniformly across the sector. This means that some consumers may be receiving treatment below the standard we would expect for a consumer credit firm.

Behavioural biases

60. Consumers are subject to behavioural biases that affect the way they act. DPC firms can exploit these biases to induce consumers to spend more than they want or can. The inherent features of DPC lend themselves to being exploited by firms through:

- **The numerosity effect** – due to instalment prices being lower than the total price, consumers perceive the purchase as cheaper. Ashby et al. (2025)[4] find across multiple experiments that DPC increases consumer spending compared to credit cards, which also benefit from the payment deferral effect.
- **Price focalism** – the tendency to focus on one part of a multi-part price format instead of the total price. By splitting the purchase into instalments, DPC shifts consumers' attention onto a smaller amount that they are more likely to focus on.

61. Other biases that could be exploited via product design are related to the customer journey:

- **Benefit framing** – information about the total credit amount, interest rate, instalment due dates, and instalment value is commonly presented using infographics (e.g., pie charts) and benefit-oriented framing. While these visual tools can enhance consumers' understanding of payment schedules, an exclusive focus on benefits risks downplaying associated risks, potentially leading consumers to underestimate them.
- **Anchoring** – consumers place greater importance on information received earlier in the journey[5]. Risk disclosures, such as late payment fees, are often made on the last page of the pre-contractual stage, immediately before entering into the agreement. By this point in the journey, the risk information comes too late to prompt reconsideration, as consumers may have already decided to take up the DPC product based on the benefit-focused framing of the earlier information.
- **Obscured information** – Information about the nature of the DPC product and the three major consequences of missing payments, (late fees, the use of debt collection agencies, and impact on credit file), is often relegated to the optional journey, for example only provided by links, or is presented less prominently in the mandatory journey. Accessing these details requires additional effort from customers and may be overlooked by those who do not actively seek them out. Additionally, the phrasing and framing of this information varies significantly across providers.

4 Ashby, R., Sharifi, S., Yao, J., & Ang, L. (2025). The influence of the buy-now-pay-later payment mode on consumer spending decisions, Journal of Retailing, Volume 101, Issue 1, 103-119.

5 See for example: Bordalo, P., Gennaioli, N. and Shleifer, A., 2013. Salience and consumer choice. *Journal of Political Economy, 121(5)*, pp.803-843. Tversky, A. and Kahneman, D., 1974. Judgment under Uncertainty: Heuristics and Biases: Biases in judgments reveal some heuristics of thinking under uncertainty. science, 185(4157), pp.1124-1131.

Information asymmetries

62. DPC is a relatively new product sold with low friction and without consistent information disclosure. This can lead to information asymmetries as consumers do not fully understand the product so are not aware of the terms of their agreement, when repayments are due, and what happens if they fail to pay. This can mean that they do not make informed decisions, leading to inappropriate choices and facing unexpected late fees or debt collection activities.

Transmission of harm

63. These drivers of harm can lead to consumers spending more than they had intended, or impulse buying, and not fully understanding their agreement and their obligations under it. While these are not inherently harmful if consumers can afford to make the purchase and meet the repayment requirements, this is not always the case. We set out the transmission mechanisms to harms related to this lack of understanding and additional spending below.

Lack of understanding

64. A lack of understanding of the product, particularly of the negative consequences of missing payments, can lead to borrowers facing surprises when they, knowingly or unknowingly, miss a payment. Evidence suggests that understanding of these negative consequences is low:

- **DPC users do not know that a late fee could be payable** – The 2024 FLS found that 23% of UK adults who had used DPC in the last 12 months (2.5m) were unaware that they could be charged a fee, rising from 19% in the 2022 edition.
- **DPC users do not know they could be referred to debt collection agencies (DCA)** – In 2020, the consumer group Which found that 41% of people who were aware of DPC did not know that missing a payment could lead to referral to a DCA. Despite this, responses to our firm survey found that firms had referred over 700,000 consumers to DCAs in 2024. This can have significant negative impacts on consumer wellbeing through financial strain, role strain, and stigma[6].
- **DPC users do not know that missing a payment could have an impact on their credit file** – 11% of DPC borrowers say they used the product because it does not have an impact on their credit score (FLS, 2024), but this is not always the case. We are aware that some firms report loan performance to CRAs but not all of them.
- **DPC users do not know that DPC is unregulated** – Research by the Lending Standards Board found that three-fifths of DPC users are unaware the product is unregulated. This means that they may think they are entitled to more protections than they are, particularly where firms must have regard for consumers who are vulnerable or in financial difficulty.

6 Rhodes, A. P., Dwyer, R. E., & Houle, J. N. (2024). Debt Collection Pressure and Mental Health: Evidence from a Cohort of U.S. Young Adults. *Journal of Health and Social Behavior*, 66(1), 38-56. https://doi.org/10.1177/00221465241268477 (Original work published 2025)

65. By comparison, only 8% of UK adults revolving on a credit card disagreed that they had a good understanding of the terms and risks involved with borrowing (FLS, 2024).

Additional spending

66. There is evidence that firms may influence consumers to spend more than they had intended[7]. This can lead to regret, lower financial resilience, and, if unaffordable, problem debt, all of which can have detrimental impacts on wellbeing:

- **Consumers regret their purchases** – Citizens Advice (2021) found that 26% of DPC users had regretted making a purchase using the product and that 37% of these spent more than they could afford. This can have consequential impacts on consumers' financial position, particularly if they have reprioritised spending over other essential goods.
- **Lower financial resilience** – increased expenditure facilitated by DPC may leave consumers less resilient to income shocks if they erode their financial buffer. 30% of individuals who had borrowed using DPC in the last 12 months had traits of low resilience (FLS, 2024).
- **Problem debt** – if consumers' overspending leads to them taking on debt they cannot afford, they may enter a debt spiral as repayments stack up. This is one of the largest concerns raised around DPC. There is mixed evidence on the scale of this problem which we discuss in the harm below.

The harm

67. We expect these drivers of harm to lead to three broad areas of harm through the transmission mechanisms set out above:

- Unaffordable borrowing
- Unnecessary late fees
- Inconsistent treatment of borrowers in financial difficulty

68. All of which we expect to lead to reductions in wellbeing.

7 For example Klarna states on its website that brands using their product see a 23% increase in average order value, a 20% increase in conversion, and 46% higher purchase frequency than average shoppers. Academic research has supported these findings, for example Di Maggio, Katz and Williams (2022) find evidence of a "liquidity flypaper effect" where liquidity in one expenditure category drives additional same-category expenditure, leading to a permanent $60 per week increase in expenditure, particularly in retail spending.
Maesen (2024) finds through a difference-in-difference approach at a large US retailer that adoption of BNPL instalment payment plans is associated with an increase in purchase incidence of approximately 9 percentage points and with a relative increase in purchase amounts of approximately 10%.
Similarly, Kumar, Salo & Bezawada (2024), through a synthetic difference-in-difference approach observe a 6.42% increase in online spending among BNPL adopters compared to non-adopting customers at the focal retailer.
Stripe, a global payments provider, ran an A/B tests on 150,000 global payment sessions where a single BNPL and at least one other payment method were eligible to be displayed to a customer. In half of the checkout sessions, customers saw the BNPL displayed in the available payment method section and in the other half, they did not. They found that 66% of transactions were net-new and there was a 14% uplift in revenue for merchants.

Unaffordable borrowing

69. Most borrowers (55%, FLS 2024) use DPC because it helps them budget or buy goods they could not afford to pay for in one go, which can support beneficial consumption smoothing. However, a minority (5%, FLS 2024) use the product as they are unable to take out other forms of credit, suggesting there is a lower bar to being offered DPC. Comparatively, 14% of high-cost credit borrowers stated that their likely eligibility for the credit was a factor when taking out the product (FLS, 2024).

70. If DPC borrowers are extended credit that they cannot afford, they are exposed to many avenues of harm. They may, for example:

- Refinance DPC onto other, higher-interest, forms of credit, leading them to paying more for their borrowing.
- Prioritise DPC repayments over other obligations such as other credit products, which may lead to larger penalties for missing these payments.
- Incur fees for missed repayments after being extended credit they cannot afford.
- Suffer reductions in wellbeing following taking on problem debt.
- Suffer negative impacts on their credit file.

71. As set out earlier, DPC is often used by vulnerable consumers. However, this correlation may exist as indebted individuals are more likely to use credit products, and there is mixed evidence on whether DPC causes negative outcomes for consumers. Indeed, the interest-free nature of the product may enable consumers to substitute existing debt for a lower-cost form of credit, although it is not clear the extent to which this occurs.

72. Some academic research has attempted to draw a causal link between DPC borrowing and financial outcomes. DeHaan et al. (2022)[8] find that access to BNPL in the US causes significant increases in overdraft charges, credit card interest and credit card late fees. Guttman-Kenney et al. (2023)[9] find that 19.5% of UK credit cards active in 2021 has a transaction by a DPC firm charged to their credit card, which could be a transfer to interest-bearing debt.

73. In contrast, Papich (2022)[10], finds using credit bureau data and a two-way fixed effects strategy that access to BNPL reduces financial distress arising from late or missed debt repayments for American consumers.

Additional borrowing

74. In the Occasional Paper published alongside this consultation we detail analysis undertaken by the FCA which sheds more light on the extent of these issues. We estimate the causal impact of DPC on consumers' full credit file by comparing the outcomes for consumers who are similar in all ways except their firm-prescribed credit limit. We find no clear evidence that additional DPC borrowing causes an increase in indebtedness, arrears, or financial distress on other credit products 7-12 months

8 deHaan, E., Jungbae, K., Lourie, B., Zhu, C. (2023). Buy Now Pay (Pain?) Later. SSRN working Paper.
9 Guttman-Kenney, B., Firth, C., Gathergood, J. (2023). Buy now, pay later (BNPL) ...on your credit card. Journal of Behavioral and Experimental Finance
10 Papich, S. (2022). Effects of Buy Now, Pay Later on Financial Well-Being. SSRN working paper.

after usage. However, these borrowers are sometimes already in financial distress and while DPC may not exacerbate these problems, it can still contribute to an overall poor financial position.

Prioritising DPC repayments over other obligations

75. There is some evidence that consumers are choosing to repay their DPC loans over other obligations which can have a greater impact on their wellbeing and carry larger penalties. For example, in a 2021 survey Citizens Advice found that "*2 in 5 BNPL users have been unable to pay for essentials such as food, rent or bills because they were making payments for a BNPL product.*"

Reductions in wellbeing

76. Indebtedness can have large impacts on consumers' wellbeing as it can impact their mental health and lead to other worse negative outcomes such as homelessness. Missing repayments can be stressful and can result in more significant impacts on people's lives such as mental health and employment problems.

77. The FCA recently published a report on the wellbeing effects related to our interventions, finding that increases in indebtedness or being in arrears can lead to material reductions in life satisfaction. Life satisfaction is measured by using the WELLBY approach described in the Green Book supplementary guidance. This approach converts a one-point change in life satisfaction to a monetary value by multiplying by £15,900 in 2024 prices.

78. The report finds that entering arrears can lead to 0.41-point drop in life satisfaction and a ten-percent increase in debt in arrears is associated with a 0.006-point drop in life satisfaction. Similarly, an individual's life satisfaction is on average 0.68 points lower if they had arrear debt in each period.

79. These estimates are likely smaller for DPC given the often-lower values of agreements and smaller penalties for missing payments.

80. Still, given that we observe large numbers of DPC users entering arrears, with firms reporting over three million customers missing payments and more than 700,000 customers with debt collection events against them in 2024, borrowers could be experiencing significant reductions in wellbeing.

81. While there is mixed evidence on the extent of unaffordable borrowing in the DPC market, it is likely that the harm will fall on vulnerable individuals in financial difficulty and those with lower capability. As set out earlier in *the market*, DPC borrowers are more than twice as likely to be in financial difficulty than an average UK individual and so are more susceptible to the negative impacts of borrowing. As the market grows and more individuals borrow through DPC, the risk of unaffordable borrowing becoming more widespread also increases.

Unnecessary late fees

82. While DPC is always interest free, providers can charge late fees to consumers when they miss payments. This is not inherently an issue – our rules enable firms to recover reasonable costs of the firm. But, in the absence of regulation, it does give rise to concerns that consumers are paying fees that they do not know about, on credit they shouldn't have been extended, or that fees are disproportionate to either the borrowing or firms' collections activity.

Incur fees for missed repayments after being extended credit they cannot afford

83. Where consumers are extended credit that they cannot afford, they can incur fees for missed repayments, find their future access to credit restricted, and potentially have debt collection activities started against them. This can incur direct harm to consumers through the fee itself but also may have further consequential impacts if it leads to other negative outcomes, for example being unable to meet other commitments.

84. We have modelled our own creditworthiness analysis based on data supplied to us by firms, combined with internally held CRA data. We take a simple approach, where we assume that a creditworthiness assessment is failed if a consumer is in default (90 days past due on any other product), has an outstanding county court judgement, could not afford to make a payment from their current account balance, or could not afford to meet the repayments after taking into account their committed credit expenditure or modelled consumption expenditure. We have used this approach for modelling purposes, accounting for the available data and its limitations. We do not present it as an exemplar of how creditworthiness should be assessed by firms in every case. Firms will have their own creditworthiness criteria and, under our rules, will develop affordability assessments which may be based on internal and external data. We discuss this assessment in more detail in paragraphs 238-252.

85. Based on this model we estimate that between 2017 and 2024, 6.3m payments (29%) were missed by individuals that would have failed a creditworthiness assessment, they were charged £24.5m in late fees, and 1.9m debt collection activities were initiated. Compared to the number and value of transactions, this shows that these borrowers were more likely to have negative outcomes associated with their transactions.

Table 2: analysis of transactions that would have failed a creditworthiness assessment 2017- Feb 2024

	Proportion	Nominal
Number of transactions	18%	48m
Value of transactions	18%	£3.7bn
Value of merchant fees	20%	£87m
Number of missed payments	29%	6.3m
Value of late fees	53%	£24.5m
Number of debt collection proceedings initiated	60%	1.9m

Source: Transaction level data, CRA data, FCA calculations

Consumers are not aware a fee could be payable and incur a fee

86. The 2024 FLS found that 8% (0.2m) of DPC borrowers who didn't know a fee could be payable were charged a fee, although an additional 19% (0.5m) did not know if they had paid a fee. Late fees charged by firms are usually in the region of £5-10, which could result in the 0.2m consumers identified above paying between £1-2m per annum in unexpected fees. While these are the single fees DPC providers often charge, total fees can reach larger amounts if multiple fees are charged for the same transaction, sometimes up to £25. This can be substantial in relation to the size of the loan, which is on average £88.

Consumers are not aware a payment is due and incur a fee

87. Borrowers may miss a payment and incur a fee if firms are not taking sufficient steps to make them aware. Statistics from the 2024 FLS find that most borrowers make repayments automatically (67%) and find it easy to keep track of DPC repayments (89%). However, once outstanding balances rise, these figures fall to only 78% of those owing over £500 finding it easy.

88. This can lead to missed repayments and subsequently fees for the borrowers who are more likely to be overextended with larger outstanding balances. In 2024, 28% of DPC users who had paid a fee for a late payment had the fee added to the account without their knowledge (FLS). As there is no regulatory requirement governing the way firms contact customers, treatment is inconsistent across firms.

Late fees are significant

89. While DPC firms cannot charge interest, they are able to charge late repayment fees. 8% of DPC holders paid a late fee according to the FLS (2024). As loans are often small, this can lead to high fees in proportion to the size of the loan where even small nominal fees can effectively implement a high interest rate. For example, on a £70 purchase for which £47 (two thirds) of credit is extended over three months, £10 of fees for two missed repayments is equivalent to an APR of 123%. By comparison, in our credit card market study, we found that average retail APRs were between 12-18%.

90. Late fees can act as large sources of revenue for firms. Respondents to our firm survey, which we consider representative of DPC firms, together earned close to £30m in late fees in 2023, 7% of total revenue, and in some cases contributed to over 10% of a firm's total revenue.

Treatment of borrowers in financial difficulty

Treatment of customers in arrears

91. As discussed above, levels of missed payments in DPC are high:

- In our firm survey, DPC firms reported over three million customers that had missed a payment in 2023, although these customers could have missed payments at multiple firms.

- The 2024 FLS found that 8% of UK adults (0.9m) who had used DPC paid a fee for late payment in the last 12 months.

92. Respondents to our firm survey generally reported offering some form of forbearance and providing links to websites that can provide support. While over 200,000 borrowers were offered forbearance in 2024, compared to 1.6m for all UK adults (FLS, 2024), over 700,000 had debt collection proceedings started against them. A sixth of borrowers do not feel comfortable contacting their DPC provider, similar to those revolving on credit cards, for support and 18% do not have a good understanding of the types of support DPC providers can offer, if they have trouble making repayments, compared to 23% of credit card revolvers (FLS, 2024). This can also have wellbeing implications for borrowers.

Treatment of vulnerable customers

93. DPC borrowers often exhibit characteristics of vulnerability which firms may need to pay regard to. For example, data from the FLS found that 58% of DPC users exhibited any characteristic of vulnerability, of which 39% had low financial resilience, compared to 49% and 26% of UK adults, respectively.

94. While use is widespread among vulnerable consumers, respondents to our firm survey only identified around 37,000 customers they had flagged as vulnerable. This suggests they have further to go in identifying vulnerable customers that may need differential treatment.

95. Vulnerable customers are more likely to experience the negative effects of DPC borrowing as they may struggle to understand the product and make repayments and thus incur fees and suffer wellbeing impacts from being in arrears discussed above.

Options

96. HMT has chosen to bring DPC firms into regulation and disapplied the information provisions of the CCA to allow us to create a proportionate regulatory regime. In developing our proposals for the regulatory regime for DPC, we have explored different options to further our statutory objectives, which we discuss below.

97. Our proposals aim to protect consumers by enabling them to understand risks and make informed decisions. While this may have some short-term impact (trade-off) on growth if consumption significantly falls as a result of these proposals, it is important that growth is sustainable and allows for healthy competition between firms and across consumer credit. It should also be noted that falls in consumption caused by an intervention on DPC may be temporary and subsequently reversed as consumer confidence increases and demand for DPC rises again.

98. Our intervention also intends to ensure that borrowers are not lent to unaffordably. This may result in some consumers losing access to DPC, but it will reduce the number of borrowers taking on unsustainable debt. Our proposals will also provide protections should they enter arrears.

Rely entirely on the Consumer Duty and high-level standards

99. We could rely on the Consumer Duty and other high-level standards, such as other parts of PRIN, GEN, and SYSC, entirely to set requirements for firms and to deliver outcomes in the interest of consumers. This would ensure that firms comply with fundamental obligations and that individuals are accountable for their conduct and competence. Firms would have a degree of flexibility in how they meet their obligations to consumers which may allow them to innovate in the delivery of services.

100. However, this approach would provide less certainty for firms and consumers. It would mean that consumers could not rely on receiving the same information from firms and may not be able to easily compare across products.

Rely on CONC and wider handbook rules

101. Another option is to rely on existing rules and guidance for consumer credit firms in CONC in addition to our high-level standards. This would apply the same expectations to DPC firms as other consumer credit firms and ensure that, for example, consumers are treated in line with the consumer duty and lent to responsibly. This could deliver many of the same outcomes for consumers and incur many of the same costs for firms.

102. However, some of the key current rules in CONC were designed to complement the CCA rather than work in isolation. The disapplication of the CCA for DPC would leave gaps in regulation where consumer harm would be more likely to occur. For instance, the CCA's requirements on pre-contractual and contractual information are being disapplied and so FCA rules need to be designed to require firms to provide certain information to help their customers make decisions on whether the credit provided is suitable for their needs.

103. Similarly, DPC carries certain unique features that would benefit from different approaches in regulation. The almost entirely digital journey and short-term nature of the product separates it from other consumer credit products and requires bespoke rules and guidance to ensure that harm is mitigated in the most proportionate and efficient manner, and that consumer understanding can be maximised. Therefore, we expect that applying the existing CONC standards may be more burdensome for firms while providing worse outcomes for consumers.

104. We want to make sure our approach aligns with rules already in place for other credit products, such as our Consumer Credit sourcebook (CONC), where the protections they provide are also necessary and appropriate for DPC consumers.

105. But our view is that some new rules and guidance are needed to make clear our expectations and reduce the risk of ambiguity for firms. Without this certainty, we think there could be a risk of failure to reduce some of the potential consumer harm that we have identified from DPC. For example, in ensuring that consumers understand the risks and are able to compare products.

Maintain creditworthiness assessment exemptions for small sum lending

106. We are therefore proposing to apply CONC to DPC agreements together with certain new rules and guidance. Our existing rules in CONC 5.2A require firms to undertake proportionate creditworthiness assessments unless these agreements are under £50. We have considered whether CONC 5.2A should apply to all DPC agreements (regardless of amount) or whether DPC agreements of less than £50 should be exempted from the requirements of CONC 5.2A.

107. More than half of DPC agreements are for less than £50 and we do not see any significant differences in negative consumer outcomes above and below this threshold. If we maintain the exemption this would lead to large numbers of consumers continuing to borrow without firms undertaking creditworthiness assessments, leaving these borrowers exposed to harm. In addition, as these checks take place on transactions, there is a risk that loan stacking, taking out loans from multiple providers, would not be covered by regulation.

108. There may be some cost savings to firms through not being required to undertake these creditworthiness assessments. However, firms would still be bound by their obligations under the Duty, most notably the obligation to avoid causing foreseeable harm to consumers.

109. In addition, our engagement with DPC firms indicated a preference for a consistent approach to creditworthiness assessments across all of their lending, and an expectation that they will run a single automated system across their books. As a result, we think that reliance on the Duty for sub £50 agreements may have little material impact, with firms undertaking creditworthiness assessments on them even in the absence of the CONC 5.2A requirements applying, in order to drive efficiencies and mitigate any potential future redress risk.

110. We provide guidance in CONC5.2A on the factors that should be taken into account when considering what constitutes a proportionate assessment, such as the amount and cost of credit. Overall, we think that it is appropriate for these requirements to apply to DPC, as reducing the risk of unaffordable borrowing is one of the key stated objectives for FCA regulation – which is relevant regardless of the amount of the borrowing. Applying these requirements also provides certainty that affordability checks will be carried out in all cases.

Our proposed intervention

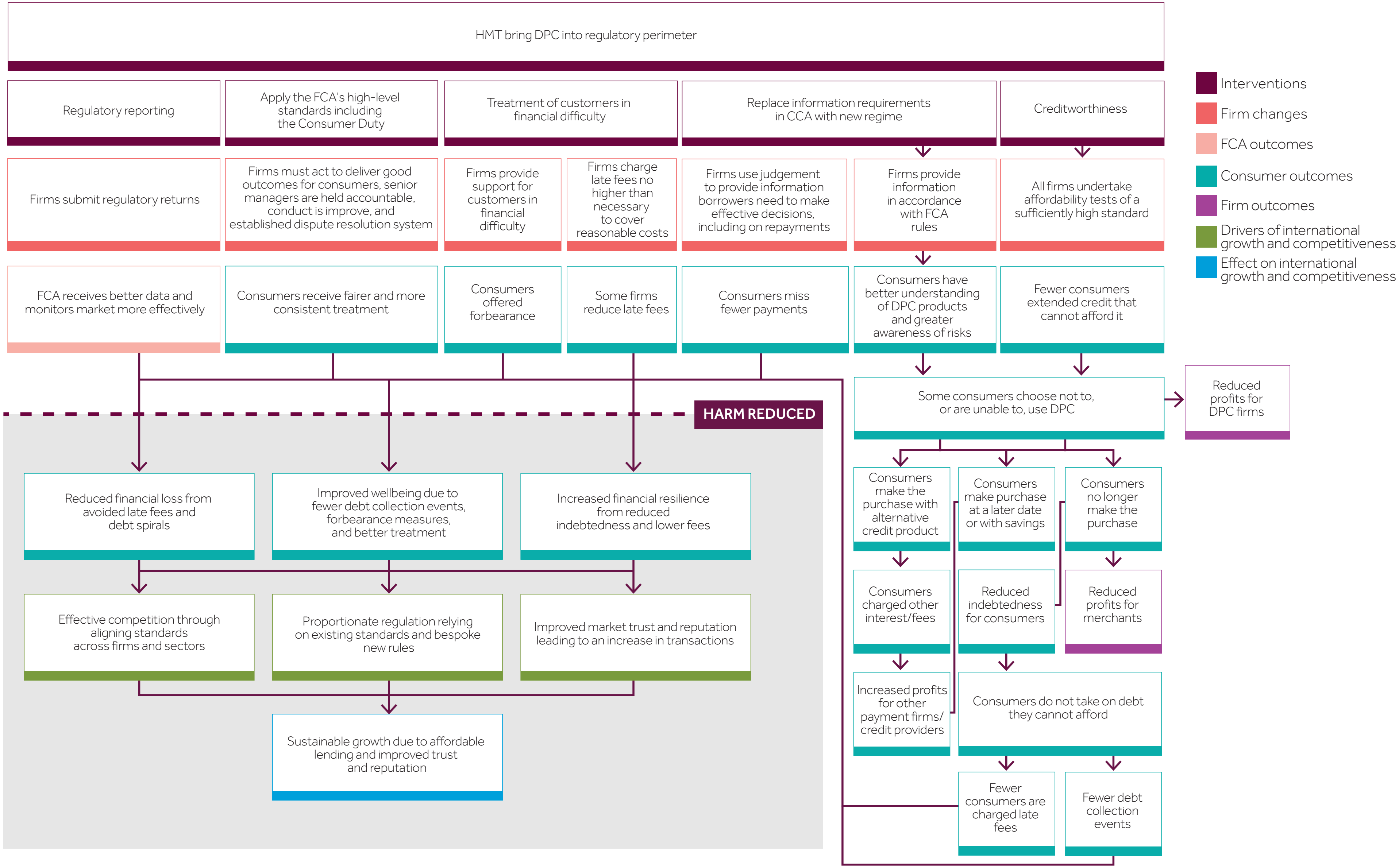
111. In this section we discuss our proposed rules at a high-level and set out how we expect them to address the harms we have identified in the DPC market. Figure 14 contains our causal chain which shows how we expect our proposals to lead to a reduction in harm.

112. It is important to note that the proposed regime for DPC is a streamlined regime, compared to the CCA regime that applies to other products. For example, the CCA typically requires prescribed information to be provided to a consumer, sometimes in a prescribed form, whereas we are proposing a more outcomes-based approach that will be proportionate to the product.

113. Our proposed intervention is detailed in the consultation paper and is focused around:

- Application of CONC,
- Information requirements,
- Creditworthiness,
- Regulatory reporting,
- Treatment of borrowers in financial difficulty,
- Other high-level standards and
- Dispute resolution

Figure 14: Causal chain



Baseline and key assumptions

114. Our CBA assesses costs and benefits against a baseline, which is a reasonable assessment of what the world may look like without our proposals and HMT's SI. In this CBA this involves estimating the growth of the DPC market without our, or the government's, intervention. This CBA compares all costs and benefits to this baseline which we describe below.

Market size

115. Our proposed intervention may have an impact on the number of transactions that customers complete with DPC firms. To understand the effect of this impact over a ten-year appraisal period, we attempt to model the growth in transactions that would have occurred had there been no intervention. We offer three scenarios of the baseline to capture the uncertainty in the value of transactions that will be completed.

116. As set out earlier, DPC usage has grown rapidly over the last five years, increasing from just over £1bn in 2019 to close to £14bn in 2024. To remove the effect of inflation over this period, we inflate 2019-23 data in-line with the ONS GDP deflator to 2024 prices.

117. It is difficult to predict how the market may change over the next ten years because we think the market will continue to grow, new technology is likely to affect demand and supply, alternative products may emerge, and the macro-economic environment is likely to affect demand.

118. We estimated the potential growth of transaction values by comparing market penetration in economies where BNPL is more mature. We used statistics from Worldpay's 2024 Global Payments Report. The report measures e-commerce market size using global consumer surveys[11].

119. In this report, UK DPC has an e-commerce market penetration of 7%, compared to 21% in Sweden and Germany; 13-15% in Australia, Finland, and Norway; and 11% in the Netherlands. These countries were earlier adopters of DPC and so are more advanced in their market penetration.

120. We use these market penetrations as high, central, and low estimates by scaling UK transactions in 2024 to these levels and fit a logistic growth model to estimate the path transactions may take to rise to that level[12].

121. For our baseline and analysis, we use net transactions as firms refund transaction fees and borrowers will not incur late fees or missed payments on these transactions. Therefore, the inclusion of refunded payments may overstate the impact of our proposals.

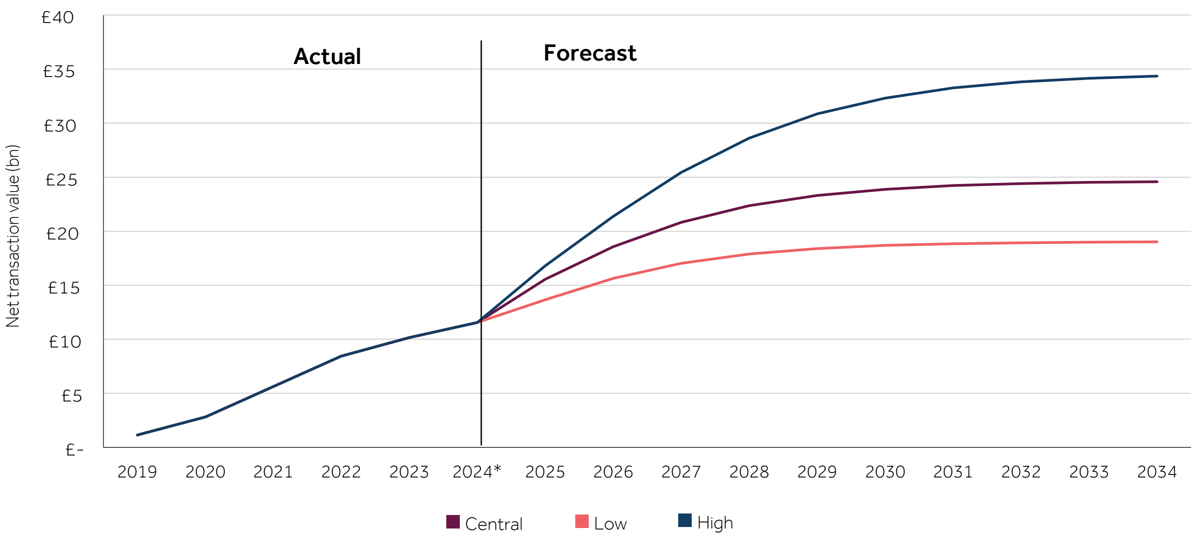
11 See "Methodology" page 158 Worldpay 2024 Global Payments Report

12 Logistic growth models are limited by a maximum supply level, the 'carrying capacity', at which growth can no longer occur as resources are limited. In this case we set the carrying capacity as the estimated market penetration in each scenario. The model minimises the sum of the least squares between actual and forecast data to find the curve that best fits the model.

122. In the central scenario, our model leads to net transactions levelling off in five years at around £25bn per annum, £35bn in the high, and £17bn in the low. These low, central, and high scenarios underpin the sensitivity analysis throughout the CBA by providing ranges for any transactions-based calculations. Figure 15 sets out actual and forecast transactions volumes over the last five years and next ten years respectively.

123. We note that the inclusion of actual transaction data for the first five years leads to net transactions spiking in growth in the first year of our appraisal period. This divergent sudden increase in growth does not seem likely, so we adjust the growth rate downwards slightly to better fit the curve. Overall, this leads to a reduction in transactions of around 5% over the entire period, compared to the above estimate, with transactions levelling off at the same points.

Figure 15: Adjusted baseline estimated value of net transactions over 10-year appraisal period



Source: Firm survey, FCA calculations

124. Firms' revenue is derived from transactions, so we assume that the proportion of these revenues remain consistent across the appraisal period.

DPC firms

125. As DPC is currently unregulated, we cannot know for certain the number of firms that will be impacted by our regulations, but we estimate that there are around 24 lenders in scope of our proposals. 16 of these firms are authorised for other activities, while an additional 8 are unauthorised.

126. We expect that unauthorised and authorised firms will face different costs as authorised firms will already have many of the procedures and processes in place to comply with our rules as part of their regulated business. Unfortunately, response rates to our compliance costs survey from smaller unauthorised firms was low, so we are reliant on assumptions from other evidence and best internal estimates for these firms.

127. The DPC market is highly concentrated, and we expect the three largest lenders are the only large firms in the market for cost estimation purposes – two of these firms are authorised and one is currently unauthorised. We received responses to our compliance cost survey for all three of these firms and apply costs as reported.

128. We size the remaining lenders according to the Companies' House classification revenue sizes, as set out in table 3 below, relying on revenue as that is available to us from our data request.

Table 3: Companies Act 2006 lender sizes

Data unit	Revenue	Employees	Balance sheet
Small	Up to £15m	Up to 50	Up to £7.5m
Medium	Up to £54m	Up to 250	Up to £27m
Large	More than £54m	More than 250	More than £27m

Source: https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts#medium-sized-company-accounts

129. Based on these criteria, four of the remaining firms for which we hold data are medium and authorised, and five are small, with one unauthorised firm. We assume that all remaining firms are small.

Table 4: Lender population by size

Firm size	Authorised	Unauthorised
Small	9	7
Medium	5	0
Large	2	1
Total	**16**	**8**

Source: Firm survey responses, FCA calculations

HMT's Impact Assessment (IA)

130. In choosing to bring DPC into regulation, HMT has published an Impact Assessment (IA). This assesses four policy options against a "do nothing" approach: a voluntary code, the full application of the CCA, regulating DPC with FCA rules for information requirements (preferred), and deferring regulation until the CCA is reformed. HMT have analysed the impact of amending the perimeter and the costs that result directly from that decision.

131. Our CBA only assesses options within the government's preferred approach and the costs and benefits of applying FCA rules, not other legislation firms may be required to comply with, such as Section 75 of the CCA or the Threshold Conditions. This is because our starting point is HMT's decision to amend the perimeter and these requirements are outside of our control.

132. To ensure that we have estimated the impact of all our rules, we have included the costs to firms of all rules we are applying to them. While some of these costs are also included in HMT's IA, we are required to assess them by FSMA section 138I.

133. In some cases, this may lead to double counting and the figures in this CBA should not necessarily be seen as additive to those in HMT's IA. Table 5 below sets out the costs HMT has included in their IA, whether those costs are monetised and whether we also include these costs in our CBA.

Table 5: Comparison of costs in HMT's IA and FCA's CBA

Costs in HMT IA	Monetised by HMT	Monetised by FCA
Costs to FCA of authorisation	✓	✓
Compliance with FCA rules	✓	✓
Compliance with section 75 of the CCA	✓	✗
Familiarisation with the SI	✓	✗
Costs to the FCA for bringing BNPL into regulation	✓	✓
FCA fees and levies	✓	✗
FOS case fees	✓	✗
Financial promotions	✗	✓
Creditworthiness assessments	✗	✓
Impact on transactions	✗	✓
Impact on merchants	✗	✓

134. Overall, HMT estimated that bringing DPC into regulation would have a net present social value of -£25.1m, a business net present value of -£20.1m, and a net cost to business per year of £2.3m. These costs are primarily due to FCA authorisation (including the TPR), compliance with FCA rules, annual FCA fees/levies, recourse to the FOS, and CCA requirements. HMT did not quantify any benefits of their intervention.

135. We note that the quantified impacts of HMT's IA are far smaller than those we estimate. This is primarily due to HMT's IA not quantitatively assessing the impact to transactions from the application of their or our proposals.

Key assumptions

136. In addition to the above, we also make the following assumptions in our analysis:

- Costs and benefits are discounted at a rate of 3.5%, as recommended in HMT's Green Book to account for the time preference value of money.
- Firms do not change their business models in response to our proposals, although we make reference to this in risks and sensitivity.
- Firms comply with our proposed rules.
- Unauthorised firms will face higher costs than authorised firms.

- Transaction value and derivative revenues rise as estimated in our baseline, and proportions remain consistent across the appraisal period.
- Data from firms has been reported and processed correctly.

137. In order to maintain consistency with the baseline, we assume that proportions remain consistent to the observed levels, such that:

- Transaction volumes are 1.1% of net transactions value.
- Late fees are 0.3% of net transactions value.
- Debt collection events are 1% of transaction volumes.

138. To account for the significant uncertainty regarding the scale of both the market and the impact of our proposals, we provide estimates in a range and conduct additional sensitivity analysis where appropriate.

139. Table 6 sets out a number of key facts we rely on in our analysis for ease of reference.

Table 6: Key facts

	2023	2024*	Source
Total customers		10,900,000	FLS
Average transaction size	£90	£92	Firm survey data
Number of customers missed repayments	3.4m	3.6m	Firm survey data
Average transaction fee		4%	
Number of transactions	132m	150m	Firm survey data
Value of transactions	£11.8bn	£13.8bn	Firm survey data
Total reported DPC firm revenue	£411m	£410m	Firm survey data
Total revenue from late fees	£28.9m	£42.3m	Firm survey data
Total revenue from merchant fees	£307m	Incomplete data	Firm survey data
Gross profit margin	42%	55%	Firm survey data
Internet retail sales	£28.4bn	£29.2bn	ONS
Number of customers with debt collection events initiated against them	687k	889k	Firm survey data
Forbearance measures	245k	262k	Firm survey data
Number of complaints	111k	152k	Firm survey data

*2024 figures from firm survey data are increased pro-rata from October 2024
Revenue data are missing for one large firm

Summary of Impacts

140. We estimate total benefits, set out in table 8, over the 10-year appraisal period of £2.4bn (PV, central). These largely accrue to consumers through a reduction in late fees paid (£440m, 10-years, PV, central) and improvements in wellbeing (£1.4bn, 10-years, PV, central), primarily due to fewer debt collection events. We expect that late fee payments will be reduced through fewer consumers being extended credit they cannot afford, more consistent provision of information improving understanding of risk, and an improvement in the information provided to consumers reducing missed payments. Consumer wellbeing will be improved through fewer negative outcomes such as entering arrears and debt collection events, and they will receive better treatment when in financial difficulty.

141. Our proposals will primarily affect consumers with lower incomes and as such will likely have a disproportionate impact on these individuals. This is because an additional pound of benefit to these consumers is relatively more valuable than those with higher incomes. We estimate the change in benefits to these consumers in the 'Distributional weighting' section, estimating an additional £700m of benefits to borrowers.

142. We expect that there will also be significant further unquantified benefits to consumers from increased financial resilience by taking on less debt and reducing their spending, leading to the avoidance of problem debt. Additionally, established dispute resolutions systems will provide recourse to firms when mistreated.

143. Merchants will stand to benefit through paying lower fees on transactions that are completed through alternative payment methods rather than DPC, such as credit or debit cards (£582m, 10-years, PV, central). Many of the reductions in DPC transactions could also be offset by spending through alternative means or take place later once the consumer has saved up for their purchase.

144. We also expect that there will be benefits to DPC firms through lower loss provisioning for bad debts following more stringent creditworthiness assessments and more informed consumers. Improved trust and confidence in their product once it's regulated may also lead to an increase in usage as consumers are more willing to use regulated products.

145. Costs, set out in table 7, are primarily driven by reductions in transactions compared to a baseline which assumes significant and sustained growth in the market. This results in lost profits for both DPC lenders (£1.2bn, 10-years, PV, central) and merchants (£1.4bn, 10-years, PV, central), as well as compliance costs to lenders (£0.2bn, 10-years, PV, central).

146. It is worth noting that we expect that many of these costs would likely be incurred under each of the options for a regulatory regime considered above, and that a regulatory regime is necessary as a result of HMT's decision to bring DPC firms into the perimeter. While we have chosen to apply prescriptive rules in some situations, we believe these are less burdensome than the equivalent CCA requirements and provide firms with greater certainty than relying solely on high-level rules.

147. DPC lenders stand to lose profits from both transaction and late fees through the reduction in transactions from consumers no longer choosing to, or being able to, access DPC. While these costs could be significant, based on our analysis we expect that firms will remain profitable and transaction growth will continue. Some of these losses will be redistributed to alternative payment and credit providers, or could occur in the future without the use of credit. In addition, they will face some implementation costs in complying with our rules and regulations.

148. If consumers do not complete transactions through alternative means, merchants may also lose profits. We have estimated costs for merchants on additional spending generated by DPC, but this may include spending that would be completed at a later date.

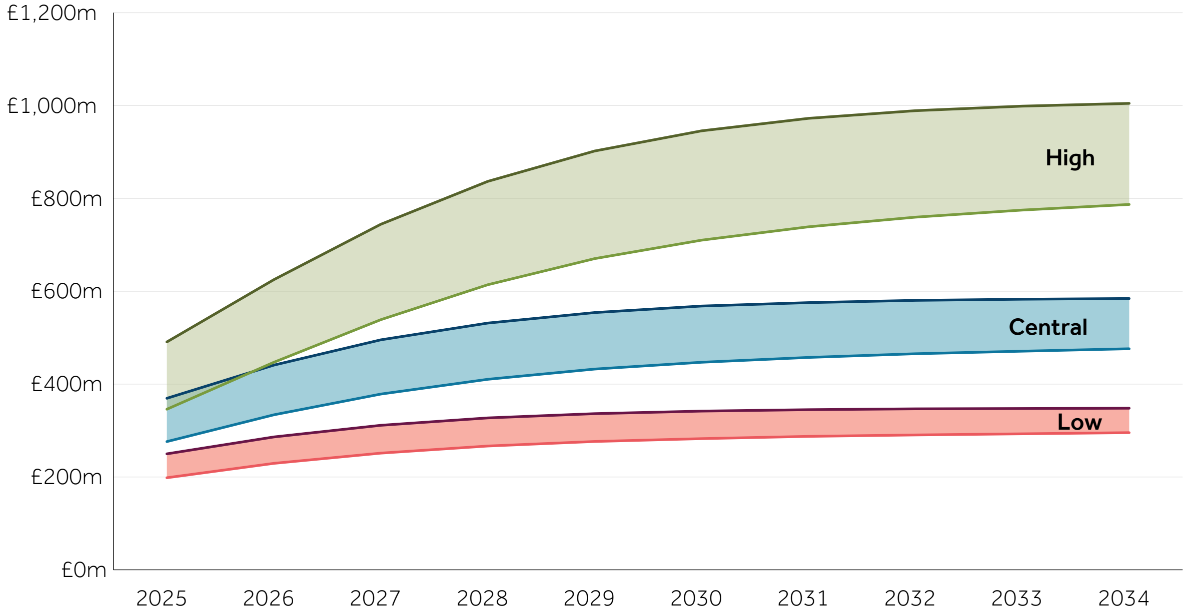
149. Consumers may also face costs if they lose access to DPC, particularly if they need to take on more expensive debt elsewhere. We are unable to determine the decisions consumers may make and so have not quantified these costs.

150. Figure 16 demonstrates that although we estimate that DPC firms may face a loss in profits as a result of our proposals, we expect the industry to still remain highly profitable, with a gross profit of around £500m in the central scenario. Profits are estimated by applying the gross profit margin in 2024, 55%, to the estimated revenue derived from transaction fees (3-5%) and late fees (0.3%) in our baseline transaction value scenarios. The upper line represents baseline industry profits, the lower estimated profits, and the shaded area the reduction.

151. Overall, we think that our proposals are proportionate and appropriate. DPC is a large and currently unregulated market that poses risks to millions of consumers. Given the scale of the market, we expect that the overall benefits (both quantified and unquantified) set out above will exceed the overall costs. We note that the quantified costs are expected to exceed the quantified benefits. However, we also consider that there are significant unquantified benefits arising, in particular, from reduced indebtedness, increased financial resilience, and wider regulatory protections. Taking into account the overall benefits, we consider that these outweigh the overall costs and we consider that the proposed regulatory regime is proportionate. We also note that we expect DPC firms to remain profitable through continued growth in the market, partially from increased consumer trust and confidence resulting from regulation, and that merchants would retain many profits as consumers switch to alternative payment methods, utilise savings, or delay their purchases.

152. Furthermore, for our proposals to breakeven, borrowers would, on average, need to yield additional quantified benefits of £30.65 over the 10-year appraisal period. We expect that this will be achieved as this is a relatively small financial benefit.

Figure 16: Baseline profits vs estimated profits (lower line) in each scenario



FCA calculations
Baseline profits are the profits we would expect firms to make in absence of our proposals, while Estimated profits are those we expect firms to make following estimated reductions in transactions following our proposals. Revenue is estimated based on merchant and late fees only.

Table 7 – Summary table of costs (Central estimates)

Group affected	Cost group	Costs	One-off	Ongoing (annual)	Total costs
DPC Lenders	**Familiarisation & legal**	**Familiarisation & legal**	£0.1m		£0.1m
	High-level standards	**PRIN**	£0.2m	£0.1m	£0.7m
		SYSC	£1.6m	£0.4m	£5.1m
		SM&CR	£2.4m	£0.7m	£8.2m
		GEN	£0.0m		£0.0m
	Information before an agreement	**Compliance costs**	£4.4m	£0.6m	£9.5m
		Reduction in profit – merchant fees		£15.3m	£186.2m
		Reduction in profit – late fees		£1.3m	£16.1m
	Information during an agreement	**Reduction in profit – late fees**		£2.7m	£38.3m
	Creditworthiness	**Compliance costs**	£4.0m	£0.4m	£7.5m
		Requesting data from CRAs		£11.0m	£158.2m
		Reduction in profit – merchant fees		£61.1m	£742.8m

Group affected	Cost group	Costs	One-off	Ongoing (annual)	Total costs
		Reduction in profit – late fees		£15.5m	£189.1m
		Impact on credit score			Unquantified
	Borrowers in financial difficulty	**Compliance costs**	£1.8m	£0.5m	£6.2m
		Level of late fees			Unquantified
	Financial promotions	**Compliance costs**			Unquantified
	Reporting	**PSD**	£3.4m	£0.1m	£4.4m
		Other reporting	£0.3m		£0.3m
	Dispute resolution	**Compliance costs**	£0.1m	£0.4m	£3.5m
Merchants	**Merchants**	**Reduction in profits**		£112.4m	£1,367.4m
Consumers	**Consumers**	**Time costs**			Unquantified
		Loss of access			Unquantified
		Pass-through costs			Unquantified
FCA	**FCA**	**Authorising firms**			£5.1m
Total	**Total**	**Total costs**	£18.3m	£222.5m	£2,743.4m

* Include any unquantifiable impact
** Highlight transfers in italic

Table 8 – Summary of benefits (Central estimates)

Group	Benefits	One-off	Ongoing (annual)	Total benefits (10 years)
Consumers	**Reduction in late fees paid**		£33.5m	£407.5m
	Avoidance of problem debt		Unquantified	
	Improved and consistent dispute resolution		Unquantified	
	Greater access to forbearance		Unquantified	
	Increased wellbeing		£99.5m	£1,422.9m
	Improved access to credit		Unquantified	

Group	Benefits	One-off	Ongoing (annual)	Total benefits (10 years)
	Increased financial resilience		Unquantified	
	Reduced indebtedness		Unquantified	
Firms	**Lower loss provisioning**		Unquantified	
	Improved trust and confidence		Unquantified	
Other credit and payment providers	**Displaced transaction fees**		Unquantified	
Merchants	**Lower merchant fees**		£47.1m	£582.0m
Total			**£180.1m**	**£2,412.4m**

Note: Benefits to consumers through reductions in late fees are higher than firms' loss in profits as these profits account for the costs in servicing late fees.

153. Table 9 below presents the total net present social value of our proposals, which summarises the total discounted quantified impact of our proposals and notes any key unquantified impacts for all stakeholders. Overall, over the ten-year appraisal period, we expect between a net quantified benefit of £208m and net cost of £3.2bn, with a central estimate of a £491m cost, excluding unquantified costs and benefits.

Table 9 – Present Value and Net Present Value including merchants

	PV Benefits	PV Costs	NPV (10 yrs) (benefits-costs)
Total impact	**£2,412m** *£1,697m to £3,539m*	**£2,743m** *£1,329m to £7,179m*	**-£331m** *£368m to £3,640m*
Key unquantified items to consider	Increased financial resilience, better forbearance, avoidance of problem debt, and an established dispute resolutions system	Loss of access to credit, pass through costs	Potential indirect impacts on growth

154. Excluding the benefits we expect to accrue to consumers, we estimate total net direct costs to business, DPC firms and merchants, of £1.3-5.7bn, with a central estimate of £2.7bn. This is equivalent to estimated annual net direct cost to business of £143-659m, with a central estimate of £337m. While these are large costs they should be contextualised in large and growing markets, internet sales reached £29.2bn in 2024 (ONS, 2025), we estimate profits to DPC firms of £476m at the end of our appraisal period, and the quantified and unquantified benefits to consumers and firms. As we have discussed DPC has grown significantly in recent years and is expected to continue to do so over the 10-year appraisal period.

Table 10 – Net direct costs to business including merchants

	Total (Present Value) Net Direct Cost to Business (10 yrs)	EANDCB
Total net direct cost to business (costs to businesses – benefits to businesses)	**£2,743m** *£1,329m to* *£7,179m*	**£319m** *£124m to* *£640m*

155. Tables 9 and 10 includes the impact of our proposals on merchants. If we were to focus only on the impact to DPC firms and consumers, we expect a net benefit of £0.2-0.6bn, with a central estimate of £0.5bn (PV, 10 years), excluding unquantified costs and benefits. Tables 11 and 12 set out these impacts below.

Table 11 – Present Value and Net Present Value excluding merchants

	PV Benefits	PV Costs	NPV (10 yrs) (benefits-costs)
Total impact	**£1,830m** *£1,439m to* *£2,474m*	**£1,376m** *£805m to* *£2,269m*	**£454m** *£635m to* *£205m*
Key unquantified items to consider	Increased financial resilience, better forbearance, avoidance of problem debt, and an established dispute resolutions system	Loss of access to credit, pass through costs	Potential knock-on impacts on growth

Table 12 – Net direct costs to business excluding merchants

	Total (Present Value) Net Direct Cost to Business (10 yrs)	EANDCB
Total net direct cost to business (costs to businesses – benefits to businesses)	**£2,161m** *£1,072m to* *£6,114m*	**£160m** *£93m to* *£264m*

Benefits

156. In this section, we set out the quantified and unquantified benefits to consumers, firms, and other stakeholders.

Benefits to consumers

Reduction in late fees paid

157. Where consumers avoid late payment fees from better understanding of the product, reminders, or improved creditworthiness rules, they stand to save this money. These reductions exceed the corresponding loss in profits to firms as we have accounted for the costs to firms of servicing these fees.

Late fees avoided through reduction in unaffordable lending

158. Where borrowers should not be extended credit as they would fail a creditworthiness assessment, they will save any associated late fees they incurred from that borrowing.

159. Based on our own creditworthiness assessment model, as detailed in paragraphs 238-252, we estimate that borrowers would have saved £276-450m, with a central estimate of £346m in late fees (PV) over the ten-year appraisal period.

Late fees avoided from better understanding of product

160. Where consumers would not have taken out DPC had they fully understood the product and incur late fees as a result of this, the avoidance of these fees as a result of our proposals would be a benefit for these consumers.

161. In paragraphs 216-225 we estimate that over the ten-year appraisal period, borrowers could save £0-£76m, with a central estimate of £29m (PV).

Late fees avoided through repayment reminders

162. We are proposing to introduce guidance which directs firms to their obligations under the Consumer Duty when dealing with customers during the course of an agreement. While we are not mandating specifically how firms communicate to borrowers, consideration of the Consumer Duty should ensure that firms use their judgement to provide the information borrowers need to make effective decisions. We expect this should reduce the number of missed payments and, in turn, the late fees being paid by customers.

163. Most firms that responded to our survey did communicate to customers that upcoming payments were due, often citing reminder emails and push notifications. Despite this, levels of missed payments are high, with over 3 million customers missing a payment annually from 2022-2024, leading to over £40m in late fees.

164. Research from the AFM, the Dutch financial regulator, in conjunction with a Dutch DPC firm found in an experiment that introducing an SMS reminder reduced the share of customers who were charged a late payment fee by at least 20%. This demonstrates the significant impact that additional and timely reminders can have.

165. As we understand that many firms are already undertaking some sort of repayment reminder, we think that the above 20% estimate is likely too high and present a range in the reduction of late payments of 0-10%. Applying this to the value of late payments forecast in our baseline (paragraphs 115-124), leads to an estimated £0-85m of avoided late fees with a central estimate of £33m (PV).

Lower late fees

166. The level of late fees charged by firms may decrease following the imposition of the Consumer Duty and CONC 7, which requires that fees are no higher than necessary to cover the reasonable costs of the firm. Should firms currently be charging fees in excess of these levels, consumers who miss payments stand to benefit following our proposals. As we do not have detailed information on firms' cost of administering fees, it is not reasonably practicable to quantify this benefit. However, even a 1% reduction in average fees would lead to a saving to consumers of £5.2-8.5m, with a central estimate of £6.6m (PV).

Avoidance of problem debt

167. While our causal research did not find evidence that DPC use leads to increased indebtedness or higher rates of arrears on other credit products, for some consumers who are already in financial difficulty, DPC use may worsen their overall debt situation, particularly if they are taking on credit they cannot afford.

168. Our proposed rules aim to address this risk by ensuring that lenders carry out creditworthiness checks and consumers have a better understanding of the product before use. This will lead to fewer consumers entering into or exacerbating problem debt through their DPC use.

169. Reducing problem debt is likely to lead to benefits to consumers through multiple channels. One such channel is the avoidance of late fees, which we discuss in the previous section. Other benefits would arise from a lower overall debt burden for consumers who do not take on additional DPC debt following our proposals, reducing the likelihood that they go on to incur interest payments or default on other credit products. We have not been able to quantify these benefits as it is unclear which other debts they may incur these costs on, but given that many borrowers are in some form of financial difficulty, this could be sizeable.

170. In addition, avoiding problem debt can improve psychological wellbeing and reduce stress amongst consumers which can significantly impact their lives. We discuss these impacts in more detail below and quantify the impacts related to debt collection events. There may be further wellbeing and social benefits if, for example, it improves the ability of borrowers to participate more fully in the economy.

Greater access to forbearance

171. Consumers stand to benefit from increased protections from regulation, particularly for those in financial difficulty and arrears. Given the large number of borrowers in arrears – over three million missed payments in 2024 – we expect this to lead to sizeable benefits both financially, through being able to delay repayments and potentially avoid fees, and mentally, through being given breathing space.

172. For example, a temporary suspension of, or reduction in, payments can immediately reduce financial pressure and free up cash flow for essential spending. This may allow consumers to regain financial stability and avoid entering persistent or problem debt. Forbearance could potentially lead to the avoiding of legal proceedings or repossessions that can have both financial and wellbeing effects on consumers. We do not think it is reasonably practicable to estimate these benefits because we do not have specific information on the extent to which firms have been offering forbearance and in which cases.

173. In addition, under our proposals, borrowers would be able to complain to firms and know that they would be responded to in accordance with our rules. They would also have recourse to the Financial Ombudsman Service if they disagreed with the outcome of their complaints. This would provide certainty to consumers that they would be treated well, improving their confidence and trust in the product.

174. There would also be efficiency gains for consumers from there being a standardised process for complaining that allows for streamlined complaints that are dealt with quickly. This creates an equitable system that ensures that all borrowers have access to the FOS where they remain unsatisfied. DPC firms received over 100,000 complaints in 2024 but only one firm reported escalating these to an arbitration process. The imposition of our dispute resolution system will likely lead to better outcomes for consumers. Due to the idiosyncrasies of complaints and lack of information on the reasons for current complaints, we do not consider it reasonably practicable to estimate these benefits.

Increased wellbeing

175. As discussed earlier in the harms section, indebtedness and the impacts of being in arrears can have negative impacts on consumer wellbeing. The size and nature of these impacts differs depending on the individual, their financial position, and many other factors.

176. We anticipate that our proposals will improve consumer wellbeing through reducing the harm set out earlier.

177. We cannot quantify all these reductions, or the extent to which each will impact wellbeing, but through our modelled creditworthiness assessment, we estimated the proportion of individuals that may have failed an assessment that later went on to experience negative outcomes. From 2017-24, transactions that failed our modelled creditworthiness assessment accounted for 60% of debt collection events, 29% of missed payments, and 53% of late fees.

178. As missed payments carry relatively few penalties in general for DPC and benefits for avoided late fees are already assessed earlier, we focus on the reduction in debt collection events as our measure for improvements in wellbeing. Not all missed payments result in debt collection events. We note that these can cover a wide range of debt collection proceedings and likely fall short of repossessions.

179. In our transaction-level data, from 2018-24, 1% of transactions resulted in debt collection events being initiated. Assuming that this proportion is representative of the wider market and that debt collection events continue to occur at this rate, we estimate that there would be 20-32 million debt collection events over the ten-year appraisal period, with a central estimate of 25 million. We note that this is a high number and there may be some decay, but we do not have evidence on how this may change. It is also possible for a consumer to have multiple debt collection proceedings started against them in one year across multiple firms.

180. Based on our estimates of the proportion of debt collection events that would be avoided as a result of the introduction of creditworthiness checks, and are baseline assumptions on the number that would occur in the absence of any intervention, we estimate that 12-19 million events could be avoided over the ten-year appraisal period, with a central estimate of 14 million. This could lead to substantial wellbeing improvements for borrowers.

181. To monetise this impact, we use the Wellbeing Adjusted Life Years (WELLBY) approach, outlined in the Government's Green Book supplementary guidance.

182. The monetary value of a single WELLBY is the value of a one-unit change in life satisfaction for one year. The central WELLBY value in 2024 prices is £15,912 and is an average of two studies. It should be noted that WELLBY values represent a constant unit value, meaning both losses and gains are valued equally.

183. In collaboration with Oxford Economics, we published a report on the wellbeing effects related to our interventions. That suggests that entering arrears is statistically significantly associated with a 0.41-point drop in life satisfaction. This estimate was drawn based on dynamic panel models that had been run on the ONS' Wealth and Assets Survey (WAS).

184. Given the lower penalties associated with DPC, we expect that this is an overestimate of the impact of entering arrears on a DPC loan, even following debt-collection being initiated. We instead use as a proxy the reduction in life satisfaction associated with a with a ten-percent increase in arrears[13], which we believe is likely a closer estimate of the impact of entering arrears on a DPC loan. We therefore assume that there is a 0.006-point drop in life satisfaction as a result of entering arrears on a DPC loan, which is associated with a reduction in wellbeing of £95.

185. Applying this reduction in wellbeing to the 12-19 million avoided debt collection events and assuming that each event has the same reduction in wellbeing, even if the same customer, leads to an estimated benefit of £1.1-1.9 billion over the ten-year appraisal period, with a central estimate of £1.4 billion.

13 Wellbeing effects related to FCA interventions, 2024, pp. 21

Improved access to credit

186. As DPC becomes regulated we expect that it will become more integrated into the credit ecosystem. This may mean DPC firms are subject to wider regulatory initiatives, such as the remedies proposed in our Credit Information Market Study. Enhanced sharing of credit information between DPC firms and Credit Reference Agencies will help facilitate better lending decisions and enable consumers who use DPC to build a positive repayment history by paying back lower value agreements consistently. This could help these consumers to access credit more easily and at better rates, which can improve the sustainability of their finances. Equally, it could lead to reporting of poor performance and have detrimental effects, which we discuss in the costs section. We do not consider it reasonably practicable to quantify this benefit as it will depend on any changes made to credit reporting processes by DPC firms, regulation, and on how DPC repayment behaviour is subsequently taken into account by lenders.

Reduced indebtedness

187. As set out in the transmission of harm section, DPC can drive additional spending through behavioural distortions and enabling unaffordable lending. Where our proposals lead to consumers not making a purchase, and they do not make the purchase with an alternative form of payment, this may result in savings and reduced indebtedness for these consumers.

188. Savings may increase consumers' financial resilience making them more resilient to shocks to their income or other unexpected expenditure. This can reduce their reliance on other borrowing in these instances, mitigating the risks of further financial hardship.

189. Consumers also often regret their DPC purchases. A survey by the Lending Standards Board found that 35% of DPC users make impulse purchases they later regret, compared to 17% of non-DPC users. The avoidance of these purchases may reduce the negative emotions and detrimental effects to wellbeing that consumers feel when regretting a purchase.

190. In paragraphs 273-279 we estimate that merchants may lose revenue between £1.9-18bn, with a central estimate of £5bn (PV) over the 10-year appraisal period. These estimates are based on the additional transaction value associated with DPC rather than total transactions completed through the product. Given that these transactions are no longer being completed, borrowers are not taking on this additional debt and will therefore make a saving. This may also increase their financial resilience. However, they will also lose the additional utility they would have gained from their purchase.

191. Given the profile of DPC borrowers often being more highly indebted, it is likely this effect may be greater among impacted borrowers as their savings increase, or the reduction in debt burden, will be relatively larger. However, it is not clear that consumers will not choose, or need, to spend this money elsewhere so we include the above estimate as illustrative only.

Benefits to firms

Lower loss provisioning

192. To the extent that our proposals reduce the number of borrowers that cannot repay their debt, firms stand to benefit from lower loss-provisioning and expenditure on administrative proceedings in following up on delinquent borrowers. We have accounted for this in our costs by applying their gross profit margin to reductions in revenue.

193. Respondents to our firm survey provisioned £78m for non-payment and fraud in 2023 and this accounted for 25-30% of merchant fee revenue from 2021-23. While we are unable to determine the split between fraud and loss provisioning from our data, any reduction in these provisions will lead to consequential savings for firms. Given that we anticipate our rules to have the greatest effect amongst consumers in financial difficulty who are less likely to repay their debt, we expect that this could lead to lower loss provisioning.

Improved trust and confidence

194. Becoming regulated may lead to consumers having greater trust and confidence in using DPC, because, for example, they will know that they are protected and can complain in the event of mistreatment by the firm and that they won't be lent to unaffordably. This could lead to increased transactions and subsequently more revenue for firms.

195. We expect this effect could be large and could offset some of the reduced transactions we have estimated in the costs section related to loss in profits. For example, some survey evidence suggests that 78% of UK consumers would prefer to have a regulated DPC option over unregulated. For these consumers, the regulation of the product will encourage them to use it. However, we are not aware of evidence that allow us to quantify this impact.

Benefits to merchants

Lower merchant fees

196. DPC firms charge higher transaction fees to merchants than payments made through other methods. If consumers choose to continue with a purchase with an alternative means, merchants stand to gain the differential in these fees.

197. In paragraphs 273-279, we estimate that merchants may lose £0.5-4.9bn in profits over the next 10-years (PV). However, on the remaining £29.5-68.5bn of transactions that we assume will still be completed through an alternative means of payment, merchants may save 1-2% in transaction fees based on the differential between standard card transactions and DPC transactions. By applying these savings, with a central estimate of 1.5%, we estimate that merchants may save £0.3-1.1bn, with a central estimate of £0.6bn (PV).

Benefits to other credit and payment providers

Displaced transaction fees

198. As set out in the transmission of harm (paragraphs 63-66), there is evidence that DPC boosts expenditure. Based on this evidence, we expect that consumers that are not credit constrained and value the utility from an immediate purchase will switch to a different payment method. Whichever firms offer this alternative method of payment stand to benefit from the fees they charge to provide this service. This could offset large amounts of the profits we have estimated that DPC firms may lose.

199. This could be considered a transfer from DPC firms to these other firms for all spending that is not additional as a result of DPC being offered. However, we present the impact to DPC firms as a cost because we estimate the reduction in profits due to our proposals.

Costs

Costs to firms

200. In this section we detail the one-off and ongoing costs we expect DPC firms to face as a result of our proposals. We present direct compliance costs to these lenders in three different groups:

- Large – the three largest firms in the market who provided cost estimates we apply directly. For confidentiality reasons we do not present costs provided by firms below, but they are included in summary figures.
- Authorised – firms that are already authorised for other activities. Seven firms provided cost estimates that we assume are representative of the group.
- Unauthorised – firms that are not authorised by the FCA for other activities. We did not receive cost estimates in response to our survey for these firms and are reliant on external evidence and our standardised costs model.

201. We aggregate costs from reductions in profit across all firms.

Familiarisation and legal costs

202. All firms will need to familiarise themselves with the contents of the consultation and legal instrument to understand the changes they may need to make to their business. Here we assess only those related to this publication, where firms will need to familiarise themselves with other handbooks due to becoming authorised, we include those costs in that section.

203. We use standard SCM assumptions[14] to calculate familiarisation and legal costs which are set out in table 13 below.

14 How we analyse the cost and benefits of our policies (FCA, 2024) Appendix 1

Table 13: Familiarisation costs and assumptions

Firm size		Large	Medium	Small
Assumptions	Number of firms	3	5	16
	Number of FTE compliance staff assumed to read CP per firm	20	5	2
	Average hourly cost of compliance staff time	£68	£63	£52
	Average reading speed, words per minute		100	
	Average number of words per page		300	
	Number of pages to be read		65	
	Size (FTE) of legal team (or equivalent) reading legal text	4	2	1
	Hours per team member to review 50 pages of legal text	28	21	7
	Average hourly cost of legal team (or equivalent) time	79	74	70
	Number of pages to be read		44	
Costs	One-off (per-firm)	£12.2k	£3.7k	£0.7k
	Total (10-years, PV)		£67.7k	

High-level standards

204. Once DPC is regulated, we will apply our high-level standards to these agreements and their related business. This includes:

- Principles for business (PRIN) – general principles and obligations of firms including the Consumer Duty.
- Threshold conditions (COND) – guidance on the minimum conditions a firm is required to satisfy to be able to continue to conduct business.
- Senior management arrangements, Systems and Controls (SYSC) – these rules set out how firms should organise and manage their affairs and ensure that firms' directors and senior managers take appropriate practical responsibility for their firms' arrangements on matters likely to be of interest to the FCA.
- Code of conduct (COCON) – rules to ensure that staff at firms conduct themselves properly.
- General provisions (GEN) – rules that mainly cover administrative duties of firms we regulate.

Principles for Business (PRIN)

205. Our Principles for Business are general fundamental obligations firms must comply with at all times and include obligations under the Consumer Duty. We expect the Consumer Duty to account for the majority of costs firms will face.

As many of our proposals are delivered through both the Consumer Duty and other rules concurrently, we assess more specific changes firms may need to make as part of those costs. Therefore, to prevent double counting, we assume that firms will include compliance with the Consumer Duty when they undertake the change and IT projects for those elements of our proposals and include only the familiarisation, gap analysis and training costs here.

Table 14: PRIN costs and assumptions

			Authorised firms	Unauthorised firms	
				Small	Large
Assumptions			No additional costs as already applying Consumer Duty to regulated business	Costs estimated in CP21/36 uprated for inflation.	
Costs	**One-off (per-firm)**	**Familiarisation, gap analysis, training**	£0.0m	£3.6k	£220k
	Ongoing (per-firm)	**Compliance with Duty**	£0.0m	£1.1-2.7k	£24-66.8k
	Total (10-years, PV)		£0.0m	£0.7m (£0.6-0.9m)	

Systems and Controls (SYSC)

206. Our high-level rules on systems and controls set out how firms should organise and manage their affairs. The main requirements of SYSC are:

- Having in place appropriate measures to manage risks to the firm's business
- Ensuring proper compliance, internal audit, and financial crime controls
- Managing conflicts of interest
- Having proper controls over outsourced providers and others (such as appointed representatives)

Table 15: SYSC costs and assumptions

			Large firms	Authorised firms	Unauthorised firms
Assumptions			Costs reported in survey reflect implementation costs.	No additional costs as already complying with SYSC for regulated business	Costs estimated in CP21/4 uprated for inflation. Familiarisation costs with SYSC.
Costs	**One-off (per-firm)**	**Familiarisation and gap analysis (182 pages)**	**		£1.8k
		Set-up and training costs			£3.2k
	Ongoing (per-firm)	**Training costs and good repute requirements**	**		£4.5k
	Total (10-years, PV)		**		£0.1m

Senior Managers and Certification Regime (SM&CR)

207. The Senior Managers and Certification Regime (SM&CR) is designed to enhance accountability in firms by requiring senior managers to be approved, have a statement of responsibilities, and can be held personally responsible for misconduct. It spans multiple sourcebooks, including SYSC, COCON, and FIT.

208. We published a CBA alongside PS18/14 and PS18/15 for extending the SM&CR which included the main costs to firms of the regime:

- Senior Managers Regime – One-off costs through changes to organisational structures and required adjustments.
- Certification regime – One-off costs related to accommodating certification requirements.
- Conduct rules – One-off and ongoing costs related to providing training to comply with conduct rules.
- Fit and proper requirements – One-off and ongoing costs to provide regulatory references to other firms on request.

209. We note that the previous CBA used the Approved Persons Regime as its baseline whereas unauthorised firms may be starting from no current procedures, meaning they will likely face higher costs. However, we do not know the extent to which unauthorised firms will have similar processes in place.

Table 16: SM&CR costs and assumptions

		Large firms	Authorised firms	Unauthorised firms
Assumptions		Costs estimated in PS18/14 and PS18/15 uprated for inflation. Large firms are enhanced.	No additional costs as already complying with SM&CR for regulated business.	Costs estimated in PS18/14 and PS18/15 uprated for inflation. Unauthorised firms are core
Costs	**One-off (per-firm)**	£752k		£27.6k
	Ongoing (per-firm)	£203k		£2.1k
	Total (10-years, PV)	£6.9m		£1.2m

General provisions (GEN)

210. Our General Provisions (GEN) contain rules that primarily cover the administrative duties of firms we regulate. The rules aim to ensure consumers are not misled, firms operate on a level playing field, and that firms are transparent about their regulatory status.

Table 17: GEN costs and assumptions

		Authorised firms	Unauthorised firms	
			Small	Large
Assumptions		No additional costs as already complying with GEN for regulated business.	Standard familiarisation and gap analysis cost assumptions – 85 pages.	
Costs	**One-off (per-firm)**		£0.8k	£15k
	Total (10-years, PV)		£5.8k	£15k

Information before an agreement

211. We anticipate firms to face three types of costs as a result of our proposed pre-contractual information requirements regime:

- One-off compliance costs to update their systems and processes and ensure they are up to the standard of our proposals (£4.9m),
- Ongoing compliance costs to undertake ongoing testing and update their systems (£5.1m), and
- Ongoing reductions in transactions from better-informed consumers (£353m).

One-off compliance costs

212. Our proposals will be delivered both through specific conduct rules in CONC and the outcomes-based Consumer Duty but we anticipate that firms will deliver the project as one programme of work, alongside all other information-related proposals. Therefore, the one-off costs estimated below also account for changes required to comply with *information during an agreement*.

213. Firms may incur one-off costs in ensuring that their current informational journey meets the requirements of our new regime. This will involve conducting gap analysis, setting up the appropriate IT systems, training employees to understand the new regime, and potential legal and external consultancy fees. We set out the costs to each group of firms in table 18 below.

Table 18: One-off costs and assumptions – information before and during an agreement

			Authorised firms		Unauthorised firms
		Large firms	Small	Medium	Small
Assumptions		Costs reported in survey reflect implementation costs.	Moderate IT and Change project in SCM		Major IT and Change project in SCM
	Number of firms	3	5	9	7
	Project length (days) (IT)		80	80	150
	Person days (IT)		312	312	585
	Person days (Change)		18	560	60
	Board review (days)		0.2	0.9	0.3
	Executive committee (days)		1.3	0.4	0.6
	Familiarisation costs				141 pages
Costs	**One-off (per-firm)**	**	£32k	£360k	£69k
	Total (10-years, PV)	**	£0.3m	£1.8m	£0.5m

Ongoing compliance costs

214. In addition, firms will be required to ensure that they are communicating with customers effectively, undertake monitoring of outcomes, and regularly update their customer journey and communications. This will likely require additional headcount or the opportunity cost of employee time on other projects to meet these expectations.

215. In response to our survey, most firms suggested that they would be able to meet these requirements out of their current headcount. However, as a conservative assumption, we assume that firms will need to make additional hires. For small and medium firms we assume one compliance staff FTE at £86k and £105k, respectively. These salaries are based on the Willis Towers Watson 2022 Financial Services Report, adjusted for subsequent annual wage inflation, and including 30% overheads. For large firms, we based our assumptions on their responses to our compliance cost survey. Overall, this leads to total costs to industry over the 10-year appraisal period of £5.1m (PV).

Reduction in transactions from better understanding

216. Our proposed pre-contractual information requirements regime may cause ongoing costs to firms through consumers having a greater understanding of the risks of DPC and choosing not to make a purchase. This will have consequential impacts on the revenue of firms, through both merchant fees and any prospective late fees these consumers would have paid.

217. In our survey to firms, we asked whether they anticipated losing customers as a result of changes to information flow, and if they had done any testing. Most firms responded that they did not expect to lose additional customers, either because they already provide DPC alongside, and in line with, regulated products, or because they expect their current processes to meet the expectations in our proposals.

218. While we understand firms' positions, we believe that there is likely to be some reduction in usage of DPC following the implementation of our information requirements regime. This is because we are proposing to give greater prominence to the risks and there may be more friction as a result.

219. We have been unable to undertake our own consumer testing to understand the impact of our proposals and, as such, rely on existing evidence to estimate the impact of a change in the information journey. We are only aware of one reliable behavioural study commissioned by Citizens Advice. An experiment was conducted where they created a realistic hypothetical shopping task for a DPC user journey and tested three interventions:

- A Disclosure Box which makes key risk information more salient at every stage of the consumer journey;
- A Disclosure Pop-up which adds in an extra decision point and includes key risk information;
- A Combined+ intervention which combines the first two interventions as well as adding in a number of other changes. The branding colours and logos were removed, language was altered to focus on DPC being a credit product and the "Express Checkout" option was removed.

220. The first two did not find an effect on the proportion of participants choosing to pay by DPC, but there was a nine-percentage point reduction in the Combined + intervention.

221. Although these experiments do not necessarily represent the consumer journeys, we expect consumers to experience following the implementation of our rules, they do provide a basis on which to estimate the reduction in transactions we may see. To capture this uncertainty in consumer reaction, particularly as we are not mandating disclosure boxes that form the basis of these experiments, we estimate illustrative scenarios of a reduction in transactions of 0-9 percent, with a midpoint of 4.5%, based on the above findings, and calculate the reduction in revenue firms may expect from both merchant fees and late fees. We note that this may overstate the impact of our proposals but are not aware of alternative evidence.

222. Based on the net transaction values estimated in our baseline, and the proportional reduction in transactions in the behavioural study above, we estimate that there may be a reduction in net transactions over the ten-year appraisal period of £0-£26.2bn, with a central estimate of £10bn. As average merchant fees are between 3-5%, DPC firms may face losses in revenue of between £0-£1.2bn over the ten-year appraisal period, with a central estimate of £0.4bn (present values).

223. In our firm survey, late fee revenue was around 0.3% of net transaction value in 2018-24. Applying this proportion to the loss in net transactions estimated above leads to a loss in revenue of £0-£76m, with a central estimate of £29m (PV). This will lead to a corresponding gain to consumers of the same amount.

224. In total, we estimate a reduction in revenue over the 10-year appraisal period of £0-1.2bn, with a central estimate of £0.4bn.

225. However, firms will also save on the costs associated with these sales and so the actual cost to firms will be dependent on their gross profit. In our survey we asked firms both their total costs and total revenue. If we calculate gross profit as the difference between these two figures, we find that on aggregate firms in 2024 had a gross profit margin of 55%. Assuming that gross profits stay at this level over the appraisal period, we estimate a reduction in profits of £0-£647m, with a central estimate of £202m (PV).

Table 19: Costs to firms, reduction in transactions from improved understanding

	Scenario		
Assumptions	Low	Central	High
Value of transactions	£177bn	£222bn	£290bn
Reduction in transactions	0%	4.5%	9%
Merchant fees	3%	4%	5%
Late fee revenue (proportion of net transaction value)	0.3%	0.3%	0.3%
Reduction in revenue (10 years, PV)	£0	£370m	£1.2bn
Gross profit margin	55%	55%	55%
Reduction in profits (10 years, PV)	**£0.0m**	**£202m**	**£647m**

Information during an agreement

226. We expect that the requirements on firms on providing information to borrowers during an agreement will result in costs to firms through:

- One-off compliance costs,
- Ongoing compliance costs, and
- Reductions in late fees from repayment reminders

227. We assume that one-off and ongoing costs related to compliance will be delivered alongside *information before an agreement*, and include all estimated costs in paragraphs 211-225.

Repayment reminders

228. Firms will be required to consider through our guidance and the Consumer Duty the most appropriate way to engage and communicate with a customer, and support customers to engage through appropriate channels, including how they remind customers of repayments. Although responses to our firm survey indicated that firms are generally already communicating with customers before a payment is due, they do not have a consistent approach. By providing guidance for firms to communicate with customers in a way that meets the expectations of the Consumer Duty, we expect that there may be some corresponding reduction in the late fees that they receive.

229. In paragraphs 162-165 we estimated that over the ten-year appraisal period this could lead to an estimated £0-85m of avoided late fees with a central estimate of £33m (PV). Firms will also incur costs associated with administering late fees, so we reduce this revenue by their average gross profit margin of 55% in 2024 to provide an estimated loss in profits of £0-46m, with a central estimate of £18m (PV).

Creditworthiness

230. We are proposing that the creditworthiness assessments set out in CONC5 are applied to all DPC firms. This will mean that they need to assess a number of factors before lending to consumers, including affordability. We anticipate that this could lead to costs to firms through three main avenues:

- One-off costs to firms of implementing new creditworthiness procedures (£4m),
- Ongoing costs to firms of undertaking creditworthiness procedures (£110m), and
- Ongoing costs to firms through any reduction in merchant fee and late fee revenue as a result of only entering into agreements with those that can afford to repay resulting in fewer approvals (£0.9bn).

One-off and ongoing implementation costs

231. Firms may need to change their systems and processes following the application of our creditworthiness rules to ensure that they are meeting our requirements, for example by setting up processes to check whether borrowers have a bad credit history or are currently in arrears on other debt.

232. Firms may incur one-off costs, mainly pertaining to gap analysis and IT development costs for conducting affordability and creditworthiness checks before lending and setting robust systems and controls, if they do not already have these in place. We expect firms to also face ongoing costs in ensuring that their processes are up to date. We set out the costs to each group of firms in Table 20 below.

Table 20: Creditworthiness assessment one-off implementation costs, ongoing costs for maintaining processes, and assumptions

		Large firms	Authorised firms	Unauthorised firms
Assumptions		Costs reported in survey reflect implementation costs.	No additional costs as already applying same creditworthiness rules checks for regulated business. Survey responses.	Mega IT and Change project in SCM.
	Number of firms	3		7
	Person days (IT)			858
	Person days (Change)			180
	Board review (days)			0.4
	Executive committee (days)			0.7
	Familiarisation and legal costs			32 pages
	Additional headcount for maintaining processes	**	£10k	£20k
Costs	**One-off (per-firm)**	**	£0m	£127k
	Ongoing (per-firm)		£10k	£20k
	Total (10-years, PV)	**	£1.2m	£2.1m

Ongoing compliance costs

Cost of calling CRAs

233. Where firms do not have sufficient data to undertake a creditworthiness assessment that meets regulatory standards, they will likely be required to obtain information from a Credit Reference Agency (CRA). CRAs charge for this information, which will lead to firms incurring costs where they use this data, one respondent to our firm survey suggested that this costs 22p per call.

234. It may be the case that firms would not need to use this data on each application, as they will hold information about the borrower or use information from other sources after their first transaction which may be sufficient depending on the recency of that customer's activity. But it is likely this would be required for new applicants and periodically thereafter. Some firms also reported that they already undertake creditworthiness assessments as they would for their regulated activity and would not need to change their processes.

235. To estimate the costs we expect firms to face, we assume that firms will periodically perform CRA search on their customers. This will be dependent on when their previous transactions were and whether they are showing signs that their financial position may be changing. For simplicity, we assume that this period is once every three months, but we note it could be more or less frequent depending on the customer. We provide this estimate for modelling purposes only to provide indicative and not as a suggestion for the action a firm should take.

236. We use a three-step process to estimate the number of CRA searches that may be undertaken. First, from our transaction-level data, we estimate the number of customers applying for a transaction in each 3-month period from 2018-24, reaching 8.7m in Q3 2024. Second, we estimate the number of new customers over the 10-year appraisal period from the average new customers added from 2019-24, 4-5m, assuming that this increase continues but growth decays at 5% per annum as per the trend we have seen in this period. Third, based on the ratio of total transactions made by individual customers to the total made in a given quarter in 2024, 29%, we estimate how many of these new customers we expect to continue to transact over the ten-year appraisal period. Together, this leads to 856m calls to CRAs over the appraisal period, compared to an estimated 2.6bn transactions.

237. At a cost of 22p per call, we estimate a total cost over the 10-year appraisal period of £158m (PV). This would be an equivalent benefit to the CRAs that are being called.

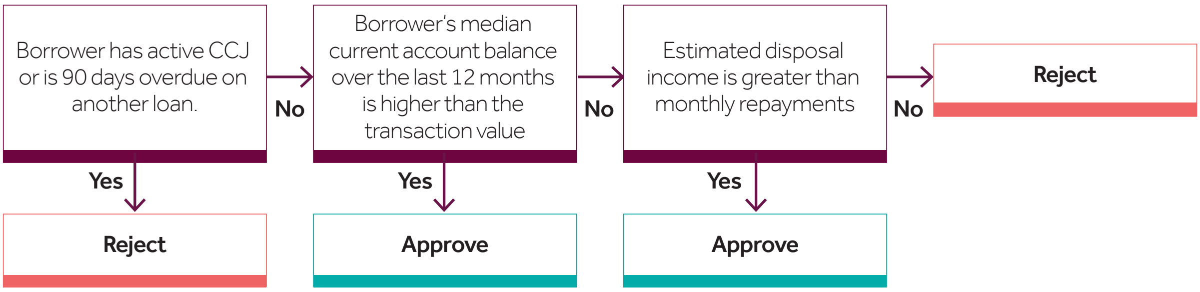
Reduction in transactions

Consumers failing creditworthiness assessments

238. Firms may lose revenue streams if consumers that they previously lent to would fail creditworthiness checks as set out in CONC 5.2A. To estimate these impacts, we have modelled our own creditworthiness assessment based on internally held CRA data and applied this to the transaction-level data we received from the three largest CRAs. We note that this is simply a proxy for a simple creditworthiness assessment based on available data, firms may take different approaches based on the additional data they hold on the customer or any other information they deem relevant. Therefore, this may over- or under-estimate the impact dependent on a firm's internal processes and should not be viewed as a guide for an appropriate assessment by firms.

239. Figure 17 sets out at a high-level what this creditworthiness assessment looks like and we discuss each step in more detail below.

Figure 17: Creditworthiness assessment process



240. To check whether the borrower is in financial difficulty, we first search whether they have any outstanding county court judgements or are more than 90 days past due on any of their other credit products. If they are, we reject this person's application.

241. We next check whether borrowers could pay for the goods or services without using credit. We look at their median current account balance over the last 12 months, sourced from current account turnover (CATO) data, is in excess of the purchase price of the product they are buying. If it is, then we approve this transaction.

242. As firms are required to ensure that borrowers can afford to make repayments without having to borrow to meet the repayments, failing to make any other payment the customer has a contractual obligation to make, and without having a significant adverse impact on the customer's financial position, we estimate their disposable income. To do this, we make further use of CATO data and estimate their net income from the recent deposits into their current account(s) based on a four-month rolling median. CRAs often use CATO to inform their income estimation and affordability products.

243. We note that there are limitations in the accuracy of this data but expect it is sufficient to give an indication of an individual's income given the lack of alternative information on this.

244. From this estimated income, we calculate disposable income by subtracting expenditure. From CRA data we estimate committed credit expenditure through a 12-month rolling median monthly spend and add to this estimated consumption from ONS household expenditure data, matched to a borrower's region. As consumers can reduce expenditure if necessary, and noting that the DPC user base is younger than the general UK population and so may have fewer commitments, we also allow consumers to reduce consumption expenditure by 25%.

245. Given the short-term nature of these agreements, we did not think it necessary to model changes in expected income or expenditure.

246. We then, for each individual approved and non-refunded transaction, subtract the monthly repayments from disposable income, approving transactions above zero and rejecting those below.

247. We were able to match income and credit performance data to 67% of 26.2m completed and non-refunded transactions from 2018-February 2024 and run creditworthiness checks on these individuals. This already excludes any transactions that firms reported as rejected during this period so does not double count these customers.

248. We estimate that over the period 18% of transactions by value would have failed a creditworthiness assessment, accounting for 53% of late fees. This is broadly in line with responses to our firm survey, where some firms stated that between 10-30% of customers would fail a regulatory creditworthiness assessment as outlined in CONC 5.2A.

249. Applying this 18% reduction in net transaction value, and assuming it continues at the same rate, to our baseline leads to £31.6-57bn, with a central estimate of £40.8bn of rejected transactions over the 10-year appraisal period, leading to £0.8-2.4bn with a central estimate of £1.4bn reduction in transaction fees (PV). In addition, firms would face a 53% reduction in late fees, a direct transfer to consumers, leading to a reduction in revenue of £214-498m, with a central estimate of £324m (PV). In total, over the 10-year appraisal period, we estimate a reduction in revenue to firms of £1-2.9bn with a central estimate of £1.7bn (PV).

250. As above, we note that firms will not lose all of this revenue as they will make savings in the cost of sales. To account for this, we again apply the 55% gross profit margin we observed in firm data in 2024, which leads to an estimated loss in profits to firms of £0.5-1.5bn, with a central estimate of £0.9bn (PV).

251. We believe that this is more likely to be an overestimate of costs than an underestimate as firms' processes would likely improve in the absence of our proposals as underwriting techniques and data availability improve.

252. It may also be the case that some of the transactions that we estimate do not pass creditworthiness assessments have already not been completed due to our rules on information requirements. We do not believe it is reasonably practicable to estimate which consumers these are, but there may be significant overlap with those in financial difficulty or lower financial literacy.

Consumers choosing not to use DPC due to impact on credit score

253. In the 2024 FLS, 11% of DPC users cited the lack of impact on credit score as a reason for using the product, the 5th most popular reason. Therefore, where firms choose to use and report data to CRAs, this could discourage some borrowers from using the product. As such, there may be some reduction in transactions and subsequent fees from some of these borrowers no longer using the product.

254. Recent research from the Bank of International Settlements (BIS) found that when China's largest BNPL lender in 2021 was incorporated into the national credit registry, BNPL users dropped their usage of the product by 14%. While this market is not directly comparable to the UK, it does speak to the importance of credit scores for some consumers.

255. It is likely that there is considerable overlap between borrowers that would fail a creditworthiness assessment and those that would be concerned about adverse impacts on their credit file. This is because individuals with good credit scores and a high likeliness to repay would likely pass a creditworthiness assessment. As such, to not overstate the impact of a creditworthiness assessment, we do not quantify any additional reduction of transactions here.

Borrowers in financial difficulty

256. We will expect firms to take into consideration a range of forbearance options for an individual's situation and proactively offer support to customers in or at risk of payment difficulty. We expect that this will lead to three sets of costs to firms:

- One-off compliance costs to firms of implementing new processes and procedures,
- Ongoing costs in providing a range of forbearance options for an individual's situation and proactively offer support to customers in or at risk of payment difficulty, and
- Ongoing costs to ensure that late fees are commensurate with the cost of administrating late payments.

257. We anticipate that firms will incur one-off and ongoing costs pertaining to complying with CONC rules and the Consumer Duty. For example, they may need to establish new forbearance options, develop a suitable outreach programme, and undertake staff training. Firms may also take on additional headcount deal with the higher burden of support. We set out these costs and assumptions in Table 21 below.

Table 21: Borrowers in financial difficulty one-off and ongoing compliance costs, and assumptions

		Large firms	Authorised firms		Unauthorised firms
			Small	Medium	Small
Assumptions		Costs reported in survey reflect implementation costs.	Firms did not report additional costs but we expect they will need to make changes. Small IT and Change project in SCM.		Major Change project in SCM.
	Number of firms	3	5	9	7
	Familiarisation and legal documentation (CONC7)				58 pages
	Training (days)				1
	Person days (IT)		40	40	-
	Person days (Change)		6	6	60
	Board review (days)		0.6	0.1	0.3
	Executive committee (days)		0.9	0.3	0.6
	Additional headcount for providing customers with assistance	**	-	-	£37.5k
Costs	**One-off (per-firm)**	**	£180k	£15k	£21k
	Ongoing (per-firm)	**			£2.3m
	Total (10-years, PV)	**	£0.1m	£0.9m	£2.4m

Price of late fees

258. Firms will be required to ensure that the late fees they charge are no higher than necessary to reasonably cover the costs of that firm. This may lead to some firms lowering their late fees if they are currently higher than these costs, which could lead to a corresponding loss in revenue. Respondents to our firm survey made over £35m from late fees in 2024 so this could represent a material impact to their revenue.

259. While this is the case, we do not have information on the marginal cost of firms' late fees and so do not consider it reasonably practicable to estimate whether firms will face a reduction in revenue.

260. As an illustrative example, a reduction in late fees of 1% would lead to an estimated fall in revenue of £5.3-9.5m, with a central estimate of £4.9m (PV), if the volume of late fees rise as estimated in our baseline.

Financial promotions

261. Firms who are authorised for lending can communicate their own financial promotions, and prepare the content of financial promotions for onward communication by unauthorised merchants. However, in order to approve an unauthorised person's financial promotions – and most relevantly in this case merchants who may offer their DPC products – firms will need to seek permission to approve financial promotion under section 55NA of FSMA.

262. This may result in costs related to seeking permissions as a financial promotion approver and approving promotions, but savings in not needing to use a third party. Authorised respondents to our survey did not anticipate any change to their current processes as they will either continue to approve merchant's promotions as they currently do, or continue to use a third-party approver.

263. Unauthorised firms may choose to apply for permissions as a financial promotion approver, but we expect they will only do this if it is beneficial for them compared to their current arrangements. Therefore, we do not estimate any additional costs to firms.

Reporting

264. DPC firms will be subject to the reporting requirements set out in the CP. We expect that firms will be able to deliver the majority of reporting through one programme, but note that PSD may lead to significantly higher costs for firms as they are required to report information on each agreement. Given that a feature of DPC is a high volume of lower-value agreements, this is likely to be more onerous for firms and we assess these costs separately.

Product Sales Data (PSD)

265. Consumer credit lenders with over £2m of new agreements in a year must submit calendar quarterly transaction-level PSD for their 'relevant regulated credit agreements', i.e., regulated credit agreements that are not overdrafts or loans secured on land. We expect this to capture all DPC lenders as they extend high volumes of agreements.

266. In line with our published 2023 CP[15] and 2024 PS[16] on PSD reporting for consumer credit firms, we assume DPC firms will incur IT development costs to comply with their regulatory reporting requirements using the RegData platform. As this would be a change project, firms will also incur costs to set up project management teams and go through the relevant governance, such as board approvals.

15 Paragraphs 37 to 39, CP23/21: Consumer Credit – Product Sales Data Reporting
16 Paragraph 4.17, PS24/3: Consumer Credit – Product Sales Data Reporting

267. We have adjusted the figures for one-off IT set-up costs reported in the 2023 CP on PSD reporting, to be representative of our firm population.

Table 22: PSD reporting, assumptions, one-off and ongoing costs

		Large firms	Medium firms	Small firms
Assumptions		Costs estimated in CP23/21: Consumer Credit – Product Sales Data Reporting, uprated for inflation.		
		Authorised and unauthorised firms face the same costs.		
		Costs are staggered depending on when firms are authorised.		
Costs	**One-off (per-firm)**	£300-500k	£175-350k	£50-80k
	Ongoing (per-firm)	£20k	£3k	£3k
	Total (10-years, PV)	£1.6m (£1.3-1.9m)	£1.4m (£1-1.8m)	£1.2m (£0.7-1.6m)

All other returns

268. The remaining returns are expected to be less burdensome and already completed by authorised firms. We again estimate the cost to firms by group.

Table 23: Other reporting assumptions, one-off and ongoing costs

		Large firms	Authorised firms	Unauthorised firms
Assumptions		Costs reported in survey reflect implementation costs.	No additional costs as already same reporting for regulated business.	Small IT and Change project in SCM.
		Negligible additional ongoing costs		
	Number of firms	3	14	7
	Person days (IT)			40
	Person days (Change)			6
	Board review (days)			0.1
	Executive committee (days)			0.3
	Familiarisation and legal costs (SUP16)			17 pages
Costs	**One-off (per-firm)**	**	£0m	£15k
	Total (10-years, PV)	**	£1.2m	£105k

Dispute resolution

269. Our Dispute resolution: Complaints Sourcebook (DISP) sets out rules for how firms should handle complaints and when complaints must be referred to the Financial Ombudsman Service (FOS).

Complaints handling and reporting

270. Firms will be required to have appropriate procedures in place for dealing with customer complaints fairly and efficiently, reporting this data to the FCA, and referring complaints to the FOS. As with previous costs, we estimate the costs to firms by group.

Table 24: Complaints handling and reporting assumptions, one-off and ongoing costs

		Large firms	Authorised firms	Unauthorised firms
Assumptions		Costs reported in survey reflect implementation costs.	No additional one-off costs as already operating dispute procedures. Additional headcount for timelines in DISP.	Moderate IT and Change project in SCM. Additional headcount for timelines in DISP.
	Number of firms	3	14	7
	Training days			1
	Person days (IT)			80
	Person days (Change)			18
	Board review (days)			0.2
	Executive committee (days)			0.4
	Additional headcount		0.5	1
	Familiarisation and legal costs (DISP)			78 pages
Costs	**One-off (per-firm)**	**		£33k
	Ongoing (per-firm)		£20k	£37.5k
	Total (10-years, PV)	**	£1.3m	£2.8m

FOS complaint fees

271. The FOS is funded through a combination of annual levies and case fees. As per our statement of policy (pg. 102) we do not assess annual fees and levies as part of our CBAs. We note that HMT did provide an estimate in the Impact Assessment.

272. There is a risk that the imposition of complaint fees could lead to firms exiting the market due to the relatively high fee of £650 in comparison to the smaller amounts of credit extended. This could place a significant burden on DPC providers if they get large quantities of complaints. However, we do not think this is likely as the burden to complainants is relatively high compared to the potential reward. Similarly, the incentives are likely to be insufficient to drive claims management company activity.

Costs to merchants

Reduction in profits

273. As we have set out above, some of our proposals may lead to reductions in transactions. To the extent that these transactions are in addition to, rather than instead of, purchases made through alternative payment methods, merchants may lose revenue.

274. Overall, we have estimated that our proposals may lead to a reduction in between £32-78bn (18-27%) in transactions over the 10-year appraisal period. Firms claim to boost order values by 23%[17] and 36%[18], while academic evidence has found increases of 6[19]-10[20]%. This suggests that a large proportion of this revenue may be retained by firms even if consumers do not choose to purchase through DPC.

275. Based on these findings, we can estimate the proportion of estimated reductions in transactions that would not otherwise be completed with an alternative means of payment. We assume that 6% of transaction value is lost in the low scenario, 10% in the central, and 23% in the high.

276. Under these scenarios we estimate that merchants will lose between £1.9-18bn, with a central estimate of £5bn (PV) over the 10-year appraisal period in revenue. For comparison, according to statistics from ONS, in 2024 UK internet retail sales were over £29bn and these are expected to continue to grow over the next 10 years.

277. As with DPC firms, reductions in revenue may overstate the costs to firms as they will also make savings on the cost of sales. Therefore, we also apply gross profit to this reduction in revenue. We have not been able to find a reliable statistic for profitability of UK retailers, so rely on statistics from NYU stern which contains sectoral breakdowns of gross profit in the US. As mature markets, we consider this to be a reasonable proxy for UK firms, and apply the 32.22% gross profit margin for general retail firms, given that is where the majority of DPC spending is focused. Applying this margin to the above revenue estimate, leads to total estimated reductions in profits of £0.5-4.9bn, with a central estimate of £1.4bn (PV).

17 https://www.klarna.com/international/enterprise/
18 https://www.clearpay.co.uk/en-GB/for-retailers
19 Di Maggio, Katz and Williams (2022)
20 Maesen (2024)

278. As discussed in the benefits section *reduced indebtedness* (paragraphs 187-191), there may be a corresponding benefit to consumers in not taking on additional debt to make these purchases.

279. Alternatively, some consumers may make purchases later as they save up money. In this case, merchants will still receive the profits for these sales at a later date but may face some small costs in the delayed receipt. This could offset significant proportions of the impact of our proposals on merchants as they do not end up worse off on aggregate.

Pass-through costs

280. DPC lenders may increase the fees they charge merchants to cover the costs imposed by regulation. This may lead to merchants facing higher costs, which they pass on to consumers, to offer DPC or choosing not to offer the product. This could subsequently lead to reductions in consumer welfare, through facing higher prices or having fewer options, or reductions in competition as DPC loses market share.

Costs to consumers

281. Consumers may also face costs as a result of DPC firms becoming regulated.

Time costs

282. Our proposed intervention may cause customers to spend longer at checkout selecting which product to use and engaging with the terms and conditions when making a purchase. However, this is likely to be small and should also lead to a better understanding of the product and allow them more time to decide whether to make a purchase.

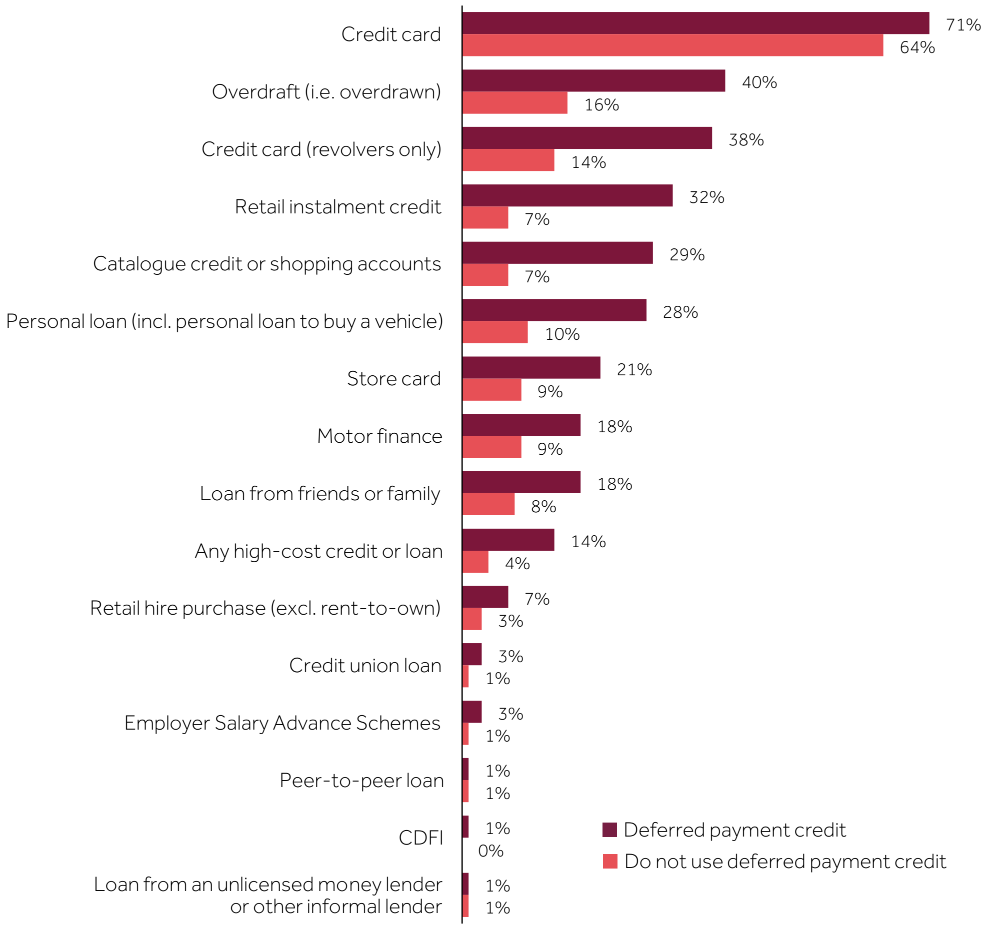
Loss of access

283. Consumers who fail creditworthiness assessments may no longer be able to use DPC or firms may be less willing to take on credit risk as their costs increase. Earlier, we estimated that this could affect up to 18% of transactions. This could lead to these consumers instead turning to other, higher cost, forms of credit to make purchases or having to forgo consumption. Where consumers choose to use higher cost credit, they will incur the additional cost of interest compared to any fees.

284. The extent of these costs will depend on the response to consumers of being denied a DPC loan. If they choose to forgo the expenditure, provided it is not essential, they may face a relatively small reduction in wellbeing but not be financially worse off. If, however, they substitute onto higher cost credit, they will face additional costs. Therefore, to understand the potential costs to consumers, we need to understand how they will react. However, we are not aware of good evidence on consumer responses.

285. The FLS 2024 found that 54% of DPC borrowers use it instead of other credit products such as credit cards, store cards, or personal loans. This suggests that many individuals may choose to proceed with a purchase using an alternative form of credit. However, it is difficult to say how expensive these other forms of credit may be, particularly whether they are revolving on their credit card, as otherwise it will not bear interest. In addition, DPC users are more likely to hold credit products, and particularly high-cost credit, than those who do not use DPC, as seen in Figure 18.

Figure 18: Proportion of DPC holders who also hold any regulated credit or loan products, compared with the proportion of non DPC holders, by product (2024)



Financial Lives Survey (2024)
Base: All UK adults who have used any DPC payment service, where they never pay any interest but defer or split payments, in the last 12 months (2022:2,820/2024:3,271)

286. While we do not consider it reasonably practicable to estimate the costs to consumers from loss of access, as we do not know what choice they will make, it may be significant in the case that they revert to use of high-cost credit or alternative lending.

287. Given the products that are most commonly purchased through DPC are non-essential retail products, it is unlikely that they will pursue high-cost alternatives or illegal moneylenders over more conventional alternatives.

Pass-through costs

288. Firms may pass any additional costs of regulation onto consumers, through higher transaction or late fees. There is a risk that some firms that do not currently charge late fees may impose them which could have a detrimental impact on consumers. Our rules will require that these fees are reflective of the costs incurred by firms.

289. We do not consider it reasonably practicable to estimate the likelihood that firms pass through these costs or change their business models as they will depend on factors unique to the firm's circumstances.

Costs to the FCA

290. HMT assessed the costs to the FCA in their impact assessment in the range of £3.8-6.4m with a central estimate of £5.1m. These costs are associated with technology and data transition, staffing for policy, legal, strategy, and market research, project management, proposition and communications support, operating model and process design, development of any additional rules for BNPL firms in the FCA Handbook; and setting up a TPR.

Risks and uncertainty

291. We recognise that establishing potential costs and benefits before the intervention comes into effect is inherently subject to uncertainty. We have addressed this uncertainty throughout the CBA by providing costs and estimates in ranges. In this section, we undertake sensitivity and breakeven analysis for some of the key assumptions we have made and assess additional risks.

Unauthorised firm population

292. As we acknowledged earlier, due to DPC firms being unregulated, it is difficult to know for certain how many firms will be impacted by our proposals. Some firms may find the costs of regulation too high and choose to stop offering DPC or operating as a result of our proposals, which could reduce the accuracy of our estimates.

Sensitivity analysis

Distributional weighting

293. Many DPC users exhibit characteristics of vulnerability and financial difficulty, and we expect that these individuals would likely be the most impacted by our proposals. As these consumers generally have lower incomes and are more indebted, they place a higher relative value on their income. If we take into account the higher value that lower income individuals place on their incomes in our estimation of the benefits of our proposed intervention, an approach known as "distributional weighting" in HMT's Green Book, we observe greater benefits than what we present in our earlier estimates.

294. To understand the difference in income of the individuals affected by our proposals, we rely on the CATO data used in the creditworthiness assessment detailed earlier. The median net income of those failing a creditworthiness assessment was £22.3k compared to £28.8k for those passing, a ratio of 1.28. Following the Green Book's guidance, we raise this to the power of 1.3 as an estimate of the marginal utility

of income to give a ratio of 1.39. As we do not have information of the household compositions of these two groups, we assume they are similar and do not attempt to further equivalise their incomes.

295. If we account for the differences in the marginal utility of income between these two groups of consumers, our estimated benefits to consumers rise from £1.8bn to £2.5bn over the 10-year appraisal period and lead to a positive NPV for our proposals. We derive this figure by multiplying our original estimated benefits by a factor of 1.39.

Breakeven analysis

296. We conduct a 'breakeven' analysis, to set out the minimum quantifiable benefit that would need to accrue to consumers over the 10-year appraisal period, for the overall NPV of the intervention to be positive.

297. In this instance, we have estimated an NPV of -£331m. We have also estimated an active consumer population of 10.9m as of 2024. Therefore, for the policy intervention to be net positive over the 10-year appraisal period, we require an additional quantified benefit of £30.65 to accrue per consumer (in PV terms). We believe this is achievable given the additional unquantified benefits discussed earlier.

Competition assessment

298. In this section we consider the potential impacts on competition for DPC firms following the implementation of our proposed intervention.

299. We anticipate the standards we introduce will support competitiveness through clear guidelines for DPC firms and robust regulation. Our proposed regime will mean that DPC consumers will have a better understanding of DPC products. Such transparency could in turn afford consumers more choice and act as a driving force for firms to innovate and compete to offer new and better products.

Barriers to entry

300. The DPC market is two-sided which means that it is reliant on network effects and firms greatly benefit from scale. There are also high setup costs, brand recognition, and economies of scale that create high barriers to entry and mean sector is likely to be concentrated. While regulation may increase the barriers to entry through introducing greater burdens on firms, they will also level the playing field, both among DPC firms and across the wider consumer credit ecosystem. This will limit regulatory arbitrage and ensure consistent consumer protections across credit markets, driving competition on service quality rather than lower standards.

301. Regulation can also lead to enhanced consumer trust, expanding the addressable market. This may enable more firms to enter and service a different customer base than currently use DPC.

Barriers to expansion

302. Our proposals are designed to be proportionate and should not prevent growth amongst smaller firms. However, DPC lenders will face additional costs from our regulation which may impact their ability to scale up. These costs are unlikely to disproportionately increase as firms scale, aside from when reporting thresholds are reached. At these thresholds, firms will have become of sufficient scale for greater oversight of their activities to be proportionate to the risks faced by consumers.

Market concentration

303. As mentioned earlier above DPC is a concentrated market. There are risks that the costs of regulation lead to further consolidation in the sector as larger firms are more easily able to absorb these costs. This could lead firms to undertake mergers and acquisitions to share compliance burdens, further concentrating the market and risking market power.

304. As regulation aligns with wider credit market, some firms operating elsewhere in the sector may seek to enter the DPC market, leveraging their experience in dealing with regulatory frameworks. This may reduce DPC market concentration, but allow larger firms to use their market power in adjacent markets.

Impact on business models

2.1 Firms may respond to DPC entering the perimeter and the costs of regulation in a way that will affect the impact of our proposals. In particular, there are risks that they may:

- Switch to running account models, or
- Switch to white-label product offerings.

Running account models

305. In switching to a current account model, firms will be subject to a different set of regulatory requirements that apply to the product. This would include information requirements at the point the product is open and during its existence, high-level standards, and creditworthiness assessments. As such, consumers will still benefit from similar regulatory protections, even if they are delivered through different mechanisms.

White-label offerings

306. Firms may choose to move to a white-label product where they provide the technology and infrastructure for merchants to provide self-funded credit and use the existing RAO exemption to avoid complying with our proposals. This may also allow them to offer their own credit ahead of other payment options.

307. The ability to do this is constrained by the merchant, who in this case will also be the lender, having the ability to offer DPC at enough scale to make it worthwhile to take on the credit risk themselves. Integrating with firms in this way is likely to be a larger task that, we believe, relatively few merchants take-up.

Wider economic impacts, including on secondary objective

308. We anticipate our proposals will advance international competitiveness and growth through the following of the seven drivers:

- **Proportionate regulation** – Our proposals are intended to be proportionate to the risks including through the imposition of an appropriate information requirement and creditworthiness regime, commensurate on the identified harms.
- **Trust and reputation** – Consumers may be more likely to use DPC products once they have entered regulation and enjoy safeguards that apply to other regulated credit products (e.g. creditworthiness assessments to mitigate unaffordable borrowing and, more generally, an ability to complain to the FOS).
- **Innovation** – DPC firms may be able to innovate in the delivery of information requirements to ensure the most appropriate and proportionate journey.
- **Effective competition** – DPC firms will be able to compete effectively within the sector and across other products once they have the same regulatory status.
- **International markets** – DPC is a worldwide phenomenon and has entered, or is entering, regulation in many other countries. Our proposals give the UK an opportunity to attract more firms to do business in the UK through regulatory certainty.

309. We recognise that developing a robust and proportionate regulatory regime for DPC products that protects consumers, as is necessary following HMT's decision to bring DPC firms into the perimeter, will have a resulting impact on competition and growth. However, protecting consumers builds trust and participation, which increase effective competition and growth. Growth is likely to materialise through improved financial literacy of consumers, and by extension, a potential reduction in defaults. A reduction in defaults can drive consumption elsewhere in the economy, as consumers can spend the amount they would have defaulted on in the absence of intervention other purchases, driving consumption and therefore growth in the economy.

310. DPC firms support consumption in the economy, which can in turn contribute to growth. However, this growth needs to be sustainable. While the decrease in transactions we have estimated may lead to short-term impacts to consumption, by limiting the indebtedness consumers take on, we can limit the risks of future downturns from over-indebtedness. This is a significant benefit of regulation. DPC currently accounts for a sizeable minority of sales in the retail sector – we estimate 10% of clothing, fashion and footwear purchases are conducted through DPC. To the extent that consumption is sustainable, any reduction could result in lower growth in the economy. On the other hand, we note that the increased security of transactions may also boost the popularity of DPC. Over a longer term, this may contribute to further establishment of DPC as a credit option and consequently support consumption and growth.

311. DPC firms are typically large multinationals that are growing fast in a burgeoning market that we expect to remain profitable and are creating competition in the well-established UK consumer credit ecosystem. Therefore, a proportionate and targeted approach to requirements on DPC firms will promote effective competition in the interest of consumers and growth.

Monitoring and evaluation

312. We will undertake active monitoring of the DPC market to understand the impact on firms and consumers of our rules.

313. We will monitor the impact of our proposals on:

- **Understanding**, through survey data, including the FLS, to assess whether consumer understanding is increasing following our intervention.
- **Missed payments**, through data from regulatory returns that firms will be required to complete.
- **Forbearance**, through data from regulatory returns.
- **Affordability**, through regulatory return data, CRA data, and FLS data on the number of consumers failing creditworthiness assessments.

314. This will allow us to assess whether consumer understanding, through the FLS, is increasing following our proposals and to measure the number of DPC users in financial distress. We will also be able to track volumes of DPC agreements to track the growth of the market.

Consultation with the FCA Cost Benefit Analysis Panel

315. We have consulted the CBA Panel in the preparation of this CBA in line with the requirements of s138IA(2)(a) FSMA. Overall, the Panel were "*concerned that while this CBA includes a large amount of detailed work, its analysis of the costs and benefits of the proposed policy and how they support the proposed decision are not clear*".

316. We appreciate the Panel's feedback and also note their comments around clarity. We have taken on the Panel's substantive points, but due to time constraints we have not been able to adopt all of the Panel's comments on structure. In particular, we have added more high-level analysis in the summary of impacts section, drawn-out further discussion of benefits, and summarised costs and assumptions in tables.

317. With respect to the detailed feedback on the analysis, the CBA Panel publishes a summary of their feedback on their website. We have taken on as much of their feedback as possible since receiving their comments and summarise our responses to their main recommendations in Table 25 below. We have also engaged with the Panel following their feedback and will assess how to incorporate their comments into future analysis.

Table 25: CBA Panel main feedback and our response

CBA panel main recommendations	Our response
Clarify relationship to HMT Impact Assessment. The CBA analyses proposed new rules and guidance to implement a Statutory Instrument made by HMT to bring DPC into the FCA's regulatory perimeter. The CBA refers briefly to the HMT IA, but does not explain its conclusions or how they relate to those of the CBA. The Panel recommends that the relationship between these two economic assessments is clarified to avoid confusion.	We have added further discussion of the relationship between these two documents and note that we are required to consider the impact of the application of FCA rules to all firms.
Clarify analysis of alternative options and its link to proposed policy decision. The baseline against which the proposed policy decision is evaluated, and the alternative policy options discussed, are not clearly specified. As a result, the reasoning set out does not clearly support the proposed policy decision. The Panel recommends that analytical resources are re-directed towards clear specification, analysis, and evaluation of the costs and benefits of alternative policy options.	We have added further clarification of the baseline and expanded discussion of alternative policy options. We note that the starting point for our CBA is the decision HMT has already taken to bring this activity within the perimeter – and so the only options that are available to us are the options in respect of the rules that we decide to apply.
Re-examine estimates of cost and benefits to ensure a more realistic appraisal. The analysis finds that the likely economic costs of the proposed policy decision are substantially in excess of its benefits, and that the EANDCB is very high. The panel is concerned, however, that the analysis appears to overestimate costs while underestimating, and in some cases omitting, potential benefits. The panel recommends a more plausible and proportionate treatment of benefits alongside costs including, for example, a clearer acknowledgement of unquantified benefits in order to provide a more balanced and useful basis for decision-making and consultation.	We have, where appropriate, added additional discussion of benefits. In particular, around transfers between different market participants, reduced indebtedness, and trust and confidence. We note that the Panel's recommendations would likely lead to a more supportive policy position.

CBA panel main recommendations	Our response
Improve clarity, structure, and presentation. The Panel commends the richness of evidence and data provided in the analysis. However, the presentation of the CBA would benefit significantly from simplification. The Panel recommends that the inclusion of an Executive Summary which clearly and succinctly lays out the questions which the CBA sets out to answer, its main lines of analysis, and its conclusions, would greatly add to its value in informing consultation.	We have included an executive summary at the start of the document and have aimed to improve clarity through clarifying section titles and making some adjustments. However, we had limited time to undertake a full restructure of the document. The Panel are content that we consider this for future CBAs, and we will work with them to address these.

Question 22: **Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons and provide any evidence you can.**

Question 23: **Do you have any views on the cost benefit analysis, including our analysis of costs and benefits to consumers, firms and the market?**

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by section 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the FCA's competition duty to, so far as acting in a way which advances the consumer protection objective or integrity objective, discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)).

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under section 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of consumer protection. The FCA's competition duty is engaged (to discharge its general functions in a way which promotes effective competition in the interest of consumers) when advancing its consumer protection objective.

Consumer protection objective

8. The FCA's consumer protection objective is to secure an appropriate degree of protection for consumers. As we have developed the proposals in this CP, we have had regard to the matters listed in section 1C(2)(a)-(h) of FSMA. We believe that our overall approach, comprising new rules and guidance, existing rules and reliance on the Duty, delivers an appropriate degree of consumer protection.

9. We are conscious that DPC is used by a large variety of consumers, who have different degrees of experience and expertise and who use the product for different reasons.

10. We have given significant thought to the needs that consumers may have for the timely provision of information about DPC agreements that is accurate and fit for purpose. Our proposed requirements relating to provision of information to DPC borrowers will ensure that borrowers will be given information that enables them to understand their obligations under a DPC agreement as well as the rights and protections that will be available to them. This will empower them to make good decisions about DPC borrowing, including whether the product is suitable for their specific needs.

11. Our proposals will also reduce the risk of unaffordable DPC lending, resulting in a lower risk of consumers experiencing financial difficulty as a result of DPC. In addition, DPC lenders will need to support and provide appropriate forbearance to borrowers who are in financial difficulty.

12. Through our proposals for access to the Financial Ombudsman, there will be greater protection for consumers where they feel they have been treated unfairly.

Competition duty

13. We must, under section 1(B)(4) of FSMA, so far as is compatible with our consumer protection objectives, carry out our general functions in a way which promotes effective competition in consumers' interests. We consider our approach complies with our competition duty while advancing our consumer protection objective.

14. As we set out in paragraphs 2.17-2.22, as DPC is currently unregulated, it enjoys some competitive advantages over regulated credit products. When it becomes regulated, these competitive advantages will reduce.

15. In order to create a proportionate regulatory regime for DPC, the Government has decided to disapply certain provisions of the CCA. As we have developed our proposals, we have been mindful of how they will affect competition between DPC and other

regulated products. Our approach seeks to ensure a proportionate approach to DPC regulation which also aligns with the treatment of other regulated products where necessary and appropriate.

16. We have also designed information requirements that can work well across digital journeys, enabling consumers to use DPC without unnecessary disruption or friction, and allowing firms to continue to innovate.

17. Our proposed rules on product information will mean that consumers will receive consistent information about DPC agreements before they enter them. This will better enable them to compare DPC products from different DPC lenders and understand the differences between them.

Secondary international competitiveness and growth objective

18. We consider our proposals are compatible with section 1B(4A) FSMA and advance the FCA's secondary international competitiveness and growth objective.

19. Our proposals to bring DPC into regulation aim to ensure an appropriate degree of protection for consumers. We recognise that this will involve material costs for firms and could result in reduction in the number of DPC transactions. A reduction in DPC transactions could result in reductions in consumption and consequently growth.

20. However, we have thought carefully about our approach to make sure it is both proportionate to the risks and appropriately tailored for this market. We think that our approach will mean that DPC will continue to be widely available but in a more sustainable way in the future.

21. For example, based on the typical customer journey we have proposed bespoke, new rules that focus on the information that firms should provide to a consumer before they enter a DPC agreement, rather than the content or form of DPC agreements themselves or prescribing how firms communicate with customers during the course of an agreement. This should maximise consumer understanding, but avoid excessive friction in the consumer journey which could result in consumers abandoning transactions. We have also allowed firms flexibility in how this information is provided, relying on the Consumer Duty rather than new rules, to encourage firms to use innovative ways to engage.

22. We are also proposing applying our existing principles-based rules and guidance on creditworthiness under which DPC firms may use a variety of methods and processes for this assessment. So, whilst we recognise that some future DPC transactions may be rejected as a result of potential borrowers not passing creditworthiness assessments, we want to ensure that DPC lending, and the consumption it supports, is sustainable.

23. We also consider our proposals may make it more likely that some consumers will use DPC as a result of increased trust and confidence in the UK market, as a result of the protections they will enjoy as a result of it becoming regulated. Further, we consider our proportionate approach to regulation and timely intervention will help maintain the attractiveness of the UK to DPC firms, bringing certainty for the foreseeable future and at a time when more jurisdictions around the globe are starting to introduce regulation into this market.

The FCA's regulatory principles

24. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in section 3B FSMA.

The need to use our resources in the most efficient and economic way

25. The Government has made the decision to bring DPC into FCA regulation. Our approach relies on the Duty and existing rules in our Handbook where possible, and we are only seeking to introduce new rules where we think they are necessary and appropriate. This approach ensures that we are able to introduce new rules in a more proportionate manner and ensure that the complexity in the Handbook is minimised.

26. Our approach to authorising firms will ensure we mitigate harm by identifying poor practice and bad actors at the gateway (where DPC lenders do not already hold the relevant credit permission). This will help ensure out supervisory resources are used efficiently.

The principle that a burden or restriction should be proportionate to the benefits

27. We have considered the impact of our proposals on both firms and consumers. We have undertaken a cost-benefit analysis which is included in Annex 2 of this CP. Whilst the costs set out in the cost-benefit analysis are material, as explained in the CBA many of the costs to firms which we have identified arise following the decision to bring DPC within the regulatory perimeter and the size of the market. There are also substantial benefits arising from our intervention in improved consumer wellbeing, reduced unnecessary late fees, and reduced indebtedness. Increased trust in the product could also lead to more consumers being willing to use it. As a result, we consider them to be proportionate to the benefits of our proposals to consumers.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

28. The outcome of our consideration in relation to these matters is stated in paragraphs 2.43-2.44.

The general principle that consumers should take responsibility for their decisions

29. Our proposed requirements for DPC lenders to provide information to customers before they enter a DPC agreement, and during its course, will empower consumers to make good decisions about their DPC borrowing. This includes by enabling consumers to decide whether a DPC product is suitable for their needs.

30. Our proposed requirements for DPC lenders to provide product information seek to ensure that consumers are given sufficient awareness of the risks of DPC borrowing, so that they can make their own judgement on whether to take out a DPC agreement.

The responsibilities of senior management

31. Our proposals to apply the Senior Managers & Certification Regime in relation to relevant DPC activities following the granting of authorisation by the FCA will ensure that firms and the FCA are able to hold individuals to account. This will help to:

- Encourage staff to take personal responsibility for their actions
- Improve conduct at all levels
- Ensure that firms and staff clearly understand and are able to demonstrate who does what.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

32. We recognise that the DPC market is diverse, with firms of different sizes and with different levels of resources. Some lenders offering DPC products are already authorised for consumer credit lending, whilst others are not authorised for any regulated activity. Our proposals are designed to be proportionate and align with requirements for other regulated products where necessary and appropriate, whilst providing clarity and certainty for both firms and consumers. We do not consider that our proposals will adversely impact a subset of businesses. The flexibilities contained within our proposals recognise that different businesses may benefit from different approaches.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

33. Our proposals do not require firms to publish information. We do not expect that our proposals will result in firms publishing information regarding persons subject to requirements imposed under FSMA.

The principle that we should exercise our functions as transparently as possible

34. In developing these proposals we have acted as transparently as possible. We have engaged with DPC providers and representatives of organisations that represent the interests of consumers, and carefully considered their views and feedback. We have also attended some of our statutory panels (the Consumer Panel, Practitioner Panel and the Smaller Business Practitioner Panel) for views on our proposals.

Financial Crime

35. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by section 1B(5)(b) FSMA).

36. We do not consider our proposals to be relevant in this regard. The financial crime obligations that apply to authorised persons within our Handbook will apply to firms. The FCA has provided guidance in our Financial Crime Guide to help firms comply with this requirement in an effective but proportionate manner.

Expected effect on mutual societies

37. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies. We are not currently aware of any mutual societies offering DPC. In any case, we do not expect that our proposals would have a materially different impact on mutual societies or present them with any more or less of a burden than other authorised persons should any mutual society wish to offer DPC in the future.

Compatibility with the duty to promote effective competition in the interests of consumers

38. We set out how we have had regard to the FCA's duty to promote effective competition in the interests of consumers in paragraphs 2.17-2.22 of this CP and paragraphs 13-17 of this annex.

Equality and diversity

39. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

40. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraphs 2.45-2.47 of the Consultation Paper.

The Treasury's remit letter

41. We have considered the content of the Treasury's November 2024 remit letter. Our view is that our consultation proposals support the matters in the remit letter by implementing a proportionate and effective regulatory regime for DPC. We recognise that DPC can support consumption and therefore economic growth. We think our proportionate approach will ensure that DPC will still be widely available so that access to it can still be retained, but that lending is sustainable.

42. In addition, we think that our approach will enable firms to innovate, and that our proposals relating to the TPR and the transition to regulation will minimise the risks of disruption to firms.

Legislative and Regulatory Reform Act 2006 (LRRA)

43. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are proportionate and result in an appropriate degree of consumer protection.

- Transparent – We are consulting on our proposals with industry and the market. We have engaged with stakeholders to inform the proposals in this CP, and will continue our discussions with them ahead of finalising our rules.
- Accountable – We are acting within our statutory powers and will publish final rules after we have considered feedback on the proposals outlined in this CP.
- Proportionate – Our proposals aim to implement a proportionate regulatory regime for DPC. We are seeking an outcomes-based approach which enables firms to continue to be able to innovate, whilst ensuring that there are sufficient protections for consumers.
- Consistent – Our proposals will result in greater consistency of treatment of DPC borrowers, as well as more consistent regulatory treatment of DPC compared to other forms of credit.
- Targeted only at cases in which action is needed – We think that our proposals are targeted towards areas where we have identified the greatest risk of consumer harm.

44. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are consistent with the principles of the code. For example, we are proposing a proportionate, outcomes-based approach that will provide an appropriate degree of consumer protection and which provides firms with flexibility in how they deliver those outcomes.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
BNPL	Buy Now Pay Later (BNPL)
CBA	Cost Benefit Analysis
CCA	The Consumer Credit Act 1974
CCR	Consumer Credit Return
CJ	Compulsory jurisdiction (of the Financial Ombudsman Service)
COCON	Code of Conduct Sourcebook
COMP	Compensation Sourcebook
CONC	Consumer Credit Sourcebook
COND	Threshold Conditions Sourcebook
CP	Consultation Paper
CRA	Credit reference agency
DISP	Dispute Resolution: Complaints Sourcebook
DPC	Deferred Payment Credit
EANDCB	Equivalent Annual Net Direct Cost to Business
EEA	European Economic Area
EG	Enforcement Guide
ESG	Environmental, Social and Governance Sourcebook
FCA	Financial Conduct Authority
FEES	Fees Manual
FLS	Financial Lives Survey

Abbreviation	Description
FSCS	Financial Services Compensation Scheme
FSMA	The Financial Services and Markets Act 2000
GEN	General Provisions Sourcebook
IA	Impact Assessment
LRRA	Legislative and Regulatory Reform Act 2006
MLR	The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (SI 2017/692)
PERG	Perimeter Guidance Manual
PRA	Prudential Regulation Authority
PRIN	Principles for Businesses Sourcebook
PS	Policy Statement
PSD	Product Sales Data
PV	Present Value
RAO	The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)
SCM	Standardised Cost Model
SM&CR	The Senior Managers and Certification regime
SMFs	Senior Management Functions
SRO	Supervised Run-Off Regime
SUP	Supervision Manual
SYSC	Senior Management Arrangements, Systems and Controls Sourcebook
TPR	Temporary Permissions Regime
VJ	Voluntary jurisdiction (of the Financial Ombudsman Service)

Appendix 1

Draft Handbook text

DEFERRED PAYMENT CREDIT INSTRUMENT 202X

Powers exercised by the Financial Ombudsman Service Limited

A. The Financial Ombudsman Service Limited ("Financial Ombudsman Service") makes and amends the rules and guidance for the Voluntary Jurisdiction and fixes and varies the standard terms for Voluntary Jurisdiction participants, as set out in Annex E to this instrument, and incorporates the changes to the Glossary as set out in Annex A to this instrument, in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 227 (Voluntary jurisdiction);
(2) paragraph 8 (Information, advice and guidance) of Schedule 17 (The Ombudsman Scheme);
(3) paragraph 18 (Terms of reference to the scheme) of Schedule 17; and
(4) paragraph 20 (Voluntary jurisdiction rules: procedure) of Schedule 17.

B. The making and amendment of the Voluntary Jurisdiction rules and guidance and the fixing and varying of standard terms for Voluntary Jurisdiction participants by the Financial Ombudsman Service, as set out at paragraph A above, is subject to the consent and approval of the Financial Conduct Authority ("FCA").

Powers exercised by the FCA

C. The FCA makes this instrument in the exercise of the following powers and related provisions in or under:

(1) the following sections of the Act:

(a) section 59 (Approval for particular arrangements);
(b) section 59AB(1) (Specifying functions as controlled functions: transitional provision);
(c) section 60 (Applications for approval);
(d) section 60A (Vetting of candidates by relevant authorised persons);
(e) section 61 (Determination of applications);
(f) section 62A (Changes in responsibilities of senior managers);
(g) section 63ZA (Variation of senior manager's approval at request of relevant authorised person);
(h) section 63ZD (Statement of policy relating to conditional approval and variation);
(i) section 63C (Statement of policy);
(j) section 63E (Certification of employees by authorised persons);
(k) section 63F (Issuing of certificates);
(l) section 64A (Rules of conduct);
(m) section 64C (Requirement for authorised persons to notify regulator of disciplinary action);
(n) section 69 (Statement of policy);
(o) section 137A (The FCA's general rules);
(p) section 137T (General supplementary powers);

(q) section 138D (Actions for damages);
(r) section 139A (Power of the FCA to give guidance);
(s) section 226 (Compulsory jurisdiction)
(t) section 347 (The record of authorised persons etc.);
(u) section 395 (The FCA's and PRA's procedures); and
(v) paragraph 13 (FCA's rules) of Schedule 17 (the Ombudsman Scheme);

(2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook; and

(3) the Financial Services and Markets Act 2000 (Regulated Activities etc.) (Amendment) Order 2025 (SI 2025/859).

D. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Consent and approval by the FCA

E. The FCA approves the making of the Voluntary Jurisdiction rules and guidance and the fixing and varying of the standard terms by the Financial Ombudsman Service, as set out in Annex E to this instrument.

Commencement

F. This instrument comes into force on [*date*].

Amendments to the FCA Handbook

G. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
General Provisions sourcebook (GEN)	Annex C
Supervision manual (SUP)	Annex D
Dispute Resolution: Complaints sourcebook (DISP)	Annex E
Consumer Credit sourcebook (CONC)	Annex F

Amendments to material outside the Handbook

H. The Perimeter Guidance manual (PERG) is amended in accordance with Annex G to this instrument.

Notes

I. In the Annexes, the notes (indicated by "**Note:**" or "*Editor's note*") are included for the convenience of readers but do not form part of the legislative text.

Citation

J. This instrument may be cited as the Deferred Payment Credit Instrument 202X.

By order of the Board of the Financial Ombudsman Service Limited
[*date*]

By order of the Board of the Financial Conduct Authority
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

deferred payment credit activity	the carrying on of *deferred payment credit lending* (or *agreeing to carry on a regulated activity* so far as it relates to the carrying on of *deferred payment credit lending*).
deferred payment credit lending	*consumer credit lending* undertaken in relation to a *regulated deferred payment credit agreement*.
Deferred Payment Credit Order	the Financial Services and Markets Act 2000 (Regulated Activities etc.) (Amendment) Order 2025 (SI 2025/859).
deferred payment credit regulatory commencement date	[*Editor's note*: insert the date which is the day 12 months after the initial commencement date of the *Deferred Payment Credit Order*. For this purpose, the 'initial commencement date' is the day after the day on which the *Deferred Payment Credit Order* is made.]
deferred payment credit temporary permission	in accordance with articles 10 and 11 of the *Deferred Payment Credit Order*, a temporary *permission* to carry on *deferred payment credit activity* which, subject to articles 10 and 11 of that Order, has effect as a *Part 4A permission*.
regulated deferred payment credit agreement	has the meaning given by section 189 of the *CCA* and article 36FB of the *Regulated Activities Order* – that is, an *agreement*: (a) which meets each of the conditions set out in article 60F(2)(a) to (d) (exempt agreements: exemptions relating to number of repayments to be made) of the *Regulated Activities Order*; and (b) to which article 60F(7A) of the *Regulated Activities Order* applies.

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

[*Editor's note*: The numbering of the new transitional provisions in this annex takes into account the proposals and legislative changes suggested in the consultation paper 'Senior Managers & Certification Regime Review 'CP25/21 as if they were made final.]

Insert the following new transitional provisions, SYSC TP 14 after SYSC TP 13 (Updates to the dual-regulated firms Remuneration Code transitional provision). All the text is new and is not underlined.

TP 14 SMCR: Application to firms with deferred payment credit temporary permission

Application

TP 14.1 R *SYSC* TP 14 applies to a *firm* with a *deferred payment credit temporary permission*.

[**Note:** articles 10 and 11 of the *Deferred Payment Credit Order*.]

TP 14.2 G Once a *firm* no longer has a *deferred payment credit temporary permission* because it has ceased to have effect in accordance with article 10(3) of the *Deferred Payment Credit Order*, *SYSC* TP 14 will cease to apply to that *firm*.

Firms with only a deferred payment credit temporary permission

TP 14.3 R In circumstances where the only *regulated activities* in a *firm's permission* are *deferred payment credit activities* permitted by a *deferred payment credit temporary permission*, a *firm* is not an *SMCR firm* (and is included in Part Three of *SYSC* 23 Annex 1 (Definition of exempt firm)).

Firms whose Part 4A permission comprises permission granted by the FCA and deferred payment credit temporary permission

TP 14.4 R (1) This *rule* applies where a *firm's permission* comprises *permission* to carry on *regulated activities* granted by the *FCA* under Part 4A of the *Act* and a *deferred payment credit temporary permission*.

(2) The *firm's deferred payment credit temporary permission* is to be disregarded for the purposes of categorising what type of *SMCR firm* the *firm* is in accordance with *SYSC* 23 Annex 1 (Definition of SMCR firm and different types of SMCR firms).

(3) For the purposes of those elements of the senior managers and certification regime that are implemented through the provisions of the *FCA Handbook* described in *SYSC* 23.3.3G:

(a) where the application of a provision is determined in whole or in part by reference to the *firm's permission*, the *firm's deferred payment credit temporary permission* is to be disregarded for the purpose of determining the application of the provision; and

(b) where the application of a provision is determined in whole or in part by reference to *regulated activities* carried on by the *firm*, any *deferred payment credit activity* which that *firm's deferred payment credit temporary permission* permits it to carry on is to be treated as if it were not a *regulated activity* for the purposes of determining the application of the provision.

TP 14.5 G An overview of the senior managers and certification regime and where to find the main *FCA Handbook* provisions can be found in *SYSC* 23.3.

Annex C

Amendments to the General Provisions manual (GEN)

In this Annex, underlining indicates new text and striking through indicates deleted text.

2 Interpreting the Handbook

…

2.3 General saving of the Handbook for Gibraltar

Continued application of the Handbook with respect to Gibraltar

2.3.1 R …

(4) …

(5) A *Gibraltar-based firm* carrying on *deferred payment credit activity* must comply with the relevant *Handbook* provisions relating to *deferred payment credit activity*.

…

4 Statutory status disclosure

…

4.2 Purpose

…

4.2.2 G There are other pre-contract information requirements outside this chapter, including:

…

(8) for *regulated credit agreements*, apart from *regulated deferred payment credit agreements*, the pre-contract information requirements in the Consumer Credit (Disclosure of Information) Regulations 2010 (SI 2010/1013) and in the Consumer Credit (Disclosure of Information) Regulations 2004 (SI 2004/1481); ~~and~~

(8A) for *regulated deferred payment credit agreements*, the product information requirements in *CONC* 4.2A; and

…

Annex D

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless stated otherwise.

16 Annex 21 **Reporting Fields**

…

2 SPECIFIC REPORTING FIELDS

…

(f) Relevant *regulated credit agreements*

…

Reference	Data reporting field	Code (where applicable)	Notes
Origination data elements …			
…			
44A	…	…	Whether the *regulated credit agreement* meets the criteria of a *BNPL agreement*. If the *regulated credit agreement* is a *regulated deferred payment credit agreement*, it does not meet the criteria of a *BNPL agreement* and must be recorded as N = No.
…			

51A	…	…	Enter the relevant code: … **D: BNPL agreement** A *regulated credit agreement* which meets the criteria of a *BNPL agreement*. If the *regulated credit agreement* is a *regulated deferred payment credit agreement*, it does not meet the criteria of a *BNPL agreement*. …
52A	…	…	The end date of the promotional period for the *BNPL credit*. *Credit* provided under a *regulated deferred payment credit agreement* does not meet the criteria of *BNPL credit*.
…			
Performance data			
…			
Reference	**Data reporting field**	**Code (where applicable)**	**Notes**
…			
Agreement characteristics data elements …			
…			

24A	…	…	Enter the relevant code: … **E: BNPL agreement** A *regulated credit agreement* which meets the criteria of a *BNPL agreement*. If the *regulated credit agreement* is a *regulated deferred payment credit agreement*, it does not meet the criteria of a *BNPL agreement*. …
…			
Drawdown type repeatable data elements			
…			
Start of drawdown type repeatable data elements			
81A	…	…	The reporting *firm* should not include data in relation to a *regulated deferred payment credit agreement* as *credit* provided under a *regulated deferred payment credit agreement* does not meet the criteria of *running-account credit*. Enter the relevant code: …
…			
Scheduled repayment period data elements			

…			
Start of scheduled repayment period repeatable data elements			
…			
114A	…	…	Whether the *BNPL credit* promotional period is in effect as on the scheduled *repayment* date. <u>*Credit* provided under a *regulated deferred payment credit agreement* does not meet the criteria of *BNPL credit*.</u> …
…			
Back-book data			
…			
Reference	**Data reporting field**	**Code (where applicable)**	**Notes**
…			
16A	…	…	Enter the relevant code: … **D: BNPL agreement** A *regulated credit agreement* which meets the criteria of a *BNPL agreement*. <u>If the *regulated credit agreement* is a *regulated deferred payment credit agreement*, it does not meet the</u>

			<u>criteria of a *BNPL* *agreement*</u> …
…			

…

Insert the following new transitional provisions, SUP TP 1.9A, after SUP TP 1.9 (Credit-related regulated activities). All the text is new and is not underlined.

TP 1.9A Deferred payment credit activities

(1)	**(2) Material to which the transitional provision applies**	**(3)**	**(4) Transitional provision**	**(5) Transitional provision: dates in force**	**(6) Handbook provision: coming into force**
1	*SUP* TP 1.9A 1R to *SUP* TP 1.9A 10G	R	In these transitional provisions: (1) ‘threshold DPC firm’ means a *firm* that previously held a *deferred payment credit temporary permission* and has provided an attestation in accordance with *SUP* TP 1.9A 3R that it has an annual total value of £2,000,000 or more outstanding for *regulated deferred payment credit agreements* or an annual total value of £2,000,000 or more of new advances for *regulated deferred payment credit agreements*. (2) references to a *firm* becoming ‘fully authorised’ are references to a *firm* that previously held a *deferred payment credit temporary permission*	From [*Editor’s note*: insert the date indicated by the definition of ‘deferred payment credit regulatory commenceme nt date’]	[*Editor’s note*: insert the date indicated by the definition of ‘deferred payment credit regulatory commenceme nt date’]

			which has ceased to have effect under article 10(3)(a) or (b) of the *Deferred Payment Credit Order* (the *firm's* application for *permission* or for a variation of *permission for deferred payment credit activity* has been granted etc by the *FCA*).		
2	*SUP* 16.11.3R, *SUP* 16.11.5R, *SUP* 16.11.5AR, *SUP* 16.11.5BR, *SUP* 16.11.7R, *SUP* 16 Annex 20G Table 6 *and SUP* 16 Annex 21R (sales data report, performance data report and back-book data report for relevant regulated credit agreements)	R	(1) This transitional provision applies where a *firm* is required to report sales, performance and back book data on relevant *regulated credit agreements* in accordance with *SUP* 16.11.3R. (2) A *regulated deferred payment credit agreement* is not a relevant *regulated credit agreement* if it was executed, or the legal ownership of the lender's rights and duties under the agreement was assigned to the *firm*, between [*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date'] and the end of the second calendar quarter after the quarter in which the *deferred payment credit regulatory commencement date*]occurs.	From [*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commenceme nt date']	[*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commenceme nt date']
3		R	(1) This transitional provision applies where a *firm's deferred payment credit temporary permission* has ceased to	From [*Editor's note*: insert the date indicated by	[*Editor's note*: insert the date indicated by the definition

			have effect because the *firm* has become fully authorised. (2) Within 20 *business days* of the *firm's deferred payment credit temporary permission* ceasing to have effect, a *firm* must provide, in an email submitted to [*Editor's note*: insert email address], an attestation to confirm whether or not it has: (a) an annual total value of £2,000,000 or more outstanding for *regulated deferred payment credit agreements*; or (b) an annual total value of £2,000,000 or more of new advances for *regulated deferred payment credit agreements*.	the definition of 'deferred payment credit regulatory commenceme nt date']	of 'deferred payment credit regulatory commenceme nt date']
4	*SUP* TP 1.9A 3R	R	(1) The attestation to be made in accordance with *SUP* TP 1.9A 3R must be made in respect of the annual period ending on the date on which the *firm* becomes fully authorised. (2) Where a *firm* has been undertaking *deferred payment credit lending* for a period of less than 12 *months*, the *firm* must annualise the total value of new advances for *regulated deferred payment credit agreements* (ie, make it representative for a full year's activity).	From [*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commenceme nt date']	[*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commenceme nt date']

5	*SUP* 16.11, *SUP* 16 Annex 20G Table 6 and *SUP* 16 Annex 21R	R	*SUP* 16.11 applies to a threshold DPC firm in relation to sales, performance and back-book data reports and will continue to apply regardless of the annual total value reported for relevant *regulated credit agreements* in subsequent reporting periods.	From [*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']	[*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']
6	*SUP* 16.11.3R and *SUP* 16.11.5BR	R	In relation to a threshold DPC firm, the first reporting period to which the requirement in *SUP* 16.11.3R applies is the fifth calendar quarter following the quarter in which the *firm* becomes fully authorised.	From [*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']	[*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']
7	*SUP* 16.11.3R(2A)	R	Where, after having reported in accordance with *SUP* 16.12.29CR, a threshold DPC firm meets the conditions for classification as a *threshold 1 category B firm* or a *threshold 2 category B firm*, the *firm* is to be treated as a *threshold 1 category B firm* or a *threshold 2 category B firm*, as relevant; and (a) the *firm* must continue to submit sales data reports and performance data reports subject to the reporting frequencies and periods	From [*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']	[*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']

			referred to in *SUP* 16.11.3R(1) and (2); and (b) the *firm's* first submission of data reports in accordance with *SUP* TP 1.9A 6R are to be treated as its data reports in respect of its first reporting period as a *threshold 1 category B firm* or a *threshold 2 category B firm*, as relevant.		
8	*SUP* 16.11.5BR (back-book data reports)	R	A threshold DPC firm that has provided a back-book data report is not required to provide an additional back-book data report once it becomes a *threshold 1 category B firm* or a *threshold 2 category B firm*.	From [*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']	[*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']
9	*SUP* TP 1.9A 7R and *SUP* TP 1.9A 8R	G	The effect of *SUP* TP 1.9A 7R and *SUP* TP 1.9A 8R is that there are no overlapping reporting requirements under *SUP* 16.11.3R for a threshold DPC firm who subsequently becomes a *threshold 1 category B firm* or a *threshold 2 category B firm*.	From [*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']	[*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory commencement date']
10	*SUP* 16.12	G	(1) *Firms* are reminded that *CONC* 16.1.5R provides that *SUP* 16 does not apply: (a) to a *firm* with only a *deferred payment credit temporary permission*; or	From [*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory	[*Editor's note*: insert the date indicated by the definition of 'deferred payment credit regulatory

			(b) to any other *firm*, with respect to: (i) the *firm's deferred payment credit temporary permission*; and (ii) the carrying on of *deferred payment credit activity* for which it has *deferred payment credit temporary permission*. (2) Where a *firm* has become fully authorised, the reporting frequencies and submission deadlines for the *data items* in *SUP* 16.12.29CR are calculated by reference to the *firm's accounting reference date* (unless otherwise stated) that follows the date on which the *firm* becomes fully authorised. Therefore, threshold DPC firms must submit the applicable *data items* referred to in *SUP* 16.12.29CR by reference to their *accounting reference date* (unless otherwise stated) and the data reports required by *SUP* 16.11.3R by reference to the calendar quarter in which they became fully authorised.	commencement date']	commencement date']

Annex E

Amendments to the Dispute Resolution: Complaints manual (DISP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Treating complainants fairly

…

1 Annex 1R Complaints return form

…

Complaints Return (DISP 1 Ann 1R)

…

PART B

		A	B	C	D	E
	Activities	Total complaints outstanding at reporting period start date	Complaints received	Complaints closed	Complaints upheld by firm	Total redress paid £
	Lending					
…						
40	High-cost short-term credit					
40A	Deferred payment Credit					
41	Other lending					

…

2 Jurisdiction of the Financial Ombudsman Service

…

2.5 To which activities does the Voluntary Jurisdiction apply?

2.5.1 R The *Ombudsman* can consider a *complaint* under the *Voluntary Jurisdiction* if:

…

(2) it relates to an act or omission by a *VJ participant* in carrying on one or more of the following activities:

(a) an activity (other than *auction regulation bidding*, *administering a benchmark*, *meeting of repayment claims*, *managing dormant asset funds (including the investment of such funds)* ~~and~~, *regulated pensions dashboard activity* and *deferred payment credit activity*) carried on after 28 April 1988 which:

…

…

(c) activities, other than *regulated claims management activities*, activities ancillary to *regulated claims management activities*, *meeting of repayment claims*, *managing dormant asset funds (including the investment of such funds)* and *regulated pensions dashboard activity*, which (at ~~30 November 2024~~ [*Editor's note*: insert the date on which this instrument comes into force]) would be covered by the *Compulsory Jurisdiction*, if they were carried on from an establishment in the *United Kingdom* (these activities are listed in *DISP* 2 Annex 1G);

…

…

2 Annex 1 Regulated Activities for the Voluntary Jurisdiction at ~~30 November 2024~~ [*Editor's note*: insert the date on which this instrument comes into force]

This table belongs to *DISP* 2.5.1R

G The activities which were covered by the *Compulsory Jurisdiction* (at ~~30 November 2024~~ [*Editor's note*: insert the date on which this instrument comes into force]) were:

…

The activities which (at ~~30 November 2024~~ [*Editor's note*: insert the date on which this instrument comes into force]) were *regulated activities* were, in accordance with section 22 of the *Act* (Regulated Activities), any of the following activities specified in Part II and Parts 3A and 3B of the *Regulated Activities Order* (with the addition of *auction regulation bidding*, *administering a benchmark* and *dealing with unwanted asset money*):

…

…

TP 1 Transitional provisions

TP 1.1 Transitional provisions table

(1)	**(2) Material provision to which transitional provision applies**	**(3)**	**(4) Transitional provision**	**(5) Transitional provision: dates in force**	**(6) Handbook provision: coming into force**
…					
57	…	…	…	…	…
58	*DISP* 1.10 as disapplied and modified as set out in the table in *CONC* 16.1.5R	G	(1) *Firms* are reminded of the disapplication and modification of *DISP* 1.10 as set out in the table in *CONC* 16.1.5R. The effect of those provisions is that no reports are due under *DISP* 1.10 and *DISP* 1.10A for *complaints* relating to *deferred payment credit activities*, unless and until such time as *Part 4A permission* is granted or varied by the *FCA*, as applicable, for *deferred payment credit activities*.	From [*Editor's note*: insert the date on which this instrument comes into force]	[*Editor's note*: insert the date on which this instrument comes into force]

			(2) Where a *firm* ceases to provide *deferred payment credit activities* on the basis of a *deferred payment credit temporary permission* by reason of being granted a *Part 4A permission* for these activities or by reason of having its *Part 4A permission* varied to include these activities, reports under *DISP* 1.10, *DISP* 1.10A and *DISP* 1 Annex 1R will be due for *complaints* relating to *deferred credit payment activities* received while the *firm* operated with a *deferred payment credit temporary permission*. To clarify: (a) the reporting frequencies, submission deadlines and time limits for publication for the returns and complaints data summaries in *DISP* 1.10 and *DISP* 1.10A are to be calculated by reference to the *firm's* next *accounting reference date* that follows the date on which the *deferred payment credit temporary permission* ceases		

			to have effect following the grant or variation of a *Part 4A permission*; (b) the first complaints return in the form in *DISP* 1 Annex 1 should cover *complaints* received in the period commencing on the *deferred payment credit regulatory commencement date* and ending on the *firm's* next *accounting reference date*, determined in accordance with (a); and (c) the complaints return form should be submitted in the form set out in *DISP* 1 Annex 1 as amended by Annex E of the Deferred Payment Credit Instrument [*Editor's note*: insert the year in which this instrument is made].		

…

Annex F

Amendments to the Consumer Credit sourcebook (CONC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

2 Conduct of business standards: general

…

2.3	**Conduct of business: lenders and restrictions on provision of credit card cheques**		
…			
	General conduct		
2.3.2	R	(1)	~~A~~ In relation to a *regulated credit agreement* other than a *regulated deferred payment credit agreement*, a *firm* must explain the key features of a *regulated credit agreement* to enable the *customer* to make an informed choice as required by *CONC* 4.2.5R (adequate explanations).

[**Note:** paragraph 2.2 of *ILG*.]

		(2)	In relation to a *regulated deferred payment credit agreement*, a *firm* must provide the information required by *CONC* 4.2A.3R.

…

2.7	**Distance marketing**		
	Application		
2.7.1	R	(1)	Subject to (2) ~~and~~, (3) and (4), this section applies to a *firm* that carries on any distance marketing activity from an establishment in the *UK*, with or for a *consumer* in the *UK*.
		…	
		(3)	…
		(4)	This section does not apply to any distance marketing activity carried on in relation to a *regulated deferred payment credit agreement*.

…

4 Pre-contractual requirements

…

4.2	**Pre-contract disclosure and adequate explanations**		
	Application		
4.2.1	R	This section, unless otherwise stated in or in relation to a *rule*:	
		…	
		(4)	does not apply to an agreement secured on *land*; ~~and~~
		<u>(4A)</u>	<u>does not apply to a *regulated deferred payment credit agreement*; and</u>
		…	
…			

Insert the following new section, CONC 4.2A, after CONC 4.2 (Pre-contract disclosure and adequate explanations). All the text is new and is not underlined.

4.2A Product information requirements: regulated deferred payment credit agreements

Application

4.2A.1 R This section applies to a *firm* with respect to *deferred payment credit lending*.

Purpose

4.2A.2 G The purpose of the *rules* in this section is to ensure that *customers* have appropriate information before entering into a *regulated deferred payment credit agreement*. References in this section to an 'agreement' are to a *regulated deferred payment credit agreement*.

Product information: pre-contract

4.2A.3 R (1) Before making an agreement, the *firm* must:

(a) give to the *customer* the information set out in *CONC* 4.2A.5R(1) ('key product information'); and

(b) give, or make available, to the *customer* the information set out in *CONC* 4.2A.5R(2) ('additional product information').

(2) The additional product information must all be given, or made available, to the *customer* together, except for the contractual terms and conditions which may be given, or made available, separately.

(3) Where there is more than one *customer* acting together as 'joint borrowers', the information required under this *rule* must be given, or made available (as applicable), to each *customer*.

Exception for distance contracts entered into orally

4.2A.4 R In the case of an agreement that is a *distance contract* entered into orally, the requirement in *CONC* 4.2A.3R(1) may be satisfied by the *firm*:

(1) giving the key product information to the *customer* orally before the agreement is made; and

(2) giving the key product information and the additional product information to the customer in a *durable medium* immediately after the agreement is made.

The information to be given or made available to the customer

4.2A.5 R (1) The key product information referred to in *CONC* 4.2A.3R(1)(a) is as follows:

(a) the rate of interest that applies to the agreement;

(b) the amount of the *credit* to be provided under the agreement;

(c) the number and frequency of payments to be made by the *customer* under the agreement (and, where known, the dates upon which those payments will fall due);

(d) the amount of each payment to be made by the *customer* under the agreement;

(e) the cash price of the goods or services, the acquisition of which is to be financed by *credit* under the agreement;

(f) the principal consequences for the *customer* of failing to make payment in accordance with the agreement including, where applicable:

(i) the circumstances in which charges for late or missed payment or under-payment will be applied (and the amount of those charges);

(ii) the risk of impaired credit rating and its possible effect on the *customer's* future access to, or cost of, *credit*;

(g) the existence of any of the following rights, and the fact that further information is set out in the additional product information referred to in *CONC* 4.2A.3R(1)(b):

(i) to withdraw from or cancel the agreement;

(ii) to complete payments ahead of time;

(iii) to refer a complaint to the *Financial Ombudsman Service*;

(h) whether the *lender* will obtain information from a *credit reference agency* before deciding whether to proceed with the agreement;

(i) (where the *customer* will need to grant a *continuous payment authority* and the *firm* chooses to comply with *CONC* 4.6.2R in the manner set out in *CONC* 4.6.2AR) an adequate explanation of what a *continuous payment authority* is and how it works, and the fact that further explanation is set out in the additional product information referred to in *CONC* 4.2A.3R(1)(b); and

(j) the existence of any other contractual terms and conditions of the agreement and, if they are to be made available (rather than given) to the *customer* as part of the additional product information, how the full contractual terms and conditions can be accessed.

(2) The additional product information referred to in *CONC* 4.2A.3R(1)(b) is as follows:

(a) the identity of the *lender* and the *supplier*;

(b) an explanation of the circumstances in which the *customer* has the rights referenced in *CONC* 4.2A.5R(1)(g), and how the *customer* may exercise the rights;

(c) an explanation of the interaction between any entitlement the *customer* has to return goods to the *supplier*, and the *customer's* rights or obligations under or in respect of the agreement;

(d) any further information the *customer* needs to understand the potential adverse consequences of a failure to make payments in accordance with the agreement and an explanation of how the *customer* can avoid those adverse consequences;

(e) an explanation of the protections available to the *customer* under section 75 of the *CCA* (or, if relevant, under section 75A of the *CCA*);

(f) (where the *customer* will need to grant a *continuous payment authority* and the *firm* chooses to comply with *CONC* 4.6.2R in the manner set out in *CONC* 4.6.2AR) an adequate explanation of the matters set out in *CONC* 4.6.2R(2)(b) to (i) and (k); and

(g) the contractual terms and conditions.

Product information: once the agreement is made

4.2A.6 R (1) Immediately after an agreement has been made the *firm* must give, or make available, to the *customer* in a *durable medium*:

(a) a copy of the agreement; and

(b) the key product information and the additional product information described in *CONC* 4.2A.5R.

(2) The requirement in (1)(b) does not apply to the extent that:

(a) the information is included in the copy of the agreement provided in accordance with (1)(a);

(b) the information was given to the *customer* in a *durable medium* prior to the customer entering into the agreement; or

(c) the information was given to the *customer* in a *durable medium* immediately after the agreement was made in accordance with *CONC* 4.2A.4R (Exception for distance contracts entered into orally).

Credit agreements where there is a guarantor etc

4.2A.7 R (1) This *rule* applies if:

(a) a *firm* is to enter into an agreement; and

(b) an *individual* other than the *borrower* (in this *rule* referred to as ‘the guarantor’) is to provide a guarantee or an indemnity (or both) in relation to the agreement.

(2) The *firm* must, before making the agreement, provide the guarantor with the information in (3) in order to place the guarantor in a position to make an informed decision as to whether to act as the guarantor in relation to the agreement.

(3) The information referred to in (2) is:

(a) an adequate explanation of

(i) the circumstances in which the guarantee or the indemnity (or both) might be called on;

(ii) the implications for the guarantor of the guarantee or the indemnity (or both) being called on; and

(b) such of the information mentioned in *CONC* 4.2A.5R as the *firm* considers necessary for the guarantor to understand the adequate explanations required by (3)(a) and make an informed decision as to whether to act as guarantor.

(4) The information provided under (3)(b) does not need to include information about the use of a *continuous payment authority* where that information is provided to the guarantor in compliance with *CONC* 4.6.5R.

[**Note:** See also Part 8 of the *CCA*.]

Interpretation: making information available

4.2A.8 R For the purposes of this section, information is made available to a *customer* only if the *customer* can reasonably be expected to:

(1) know how to access it, and

(2) be able to access it.

4.2A.9 G The *rules* in this section do not specify how information can be made available, as it will depend on the context and channel of communication. However, *CONC* 4.2A.8R provides that the test will be satisfied only if the *customer* can reasonably be expected to know how to access the information and be able to access it. Information is unlikely to be made available if it is not clearly and prominently signposted, or if it is obscured or provided alongside too much other information.

Supporting customer understanding

4.2A.10 G (1) *Firms* are reminded of their obligations under *CONC* 3.3 (The clear, fair and not misleading rule and general requirements), *Principle* 12 and *PRIN* 2A (The Consumer Duty). In the *FCA's* view, to comply with the requirements of *CONC* 3.3, *Principle* 12 and *PRIN* 2A and the *rules* in this section, a *firm* should, among other things, consider how it communicates with its *customers* and provides information in a way that supports *customer* understanding (see in particular *PRIN* 2A.5).

(2) In particular, *firms* should ensure that the information required under this section is communicated:

(a) in such a way that

(i) the *customer's* attention is drawn to it; and

(ii) it is not disguised, diminished or obscured by any other information given to the *customer* at the same time; and

(b) in good time for the *customer* to consider it and make effective decisions before entering into the agreement.

4.2A.11 G Firms are reminded that *GEN* 2.3.1R(5) provides that a *Gibraltar-based firm* carrying on *deferred payment credit activity* must comply with the relevant *Handbook* provisions relating to *deferred payment credit activity*.

Amend the following as shown.

4.6 Pre-contract disclosure: continuous payment authorities

…

Disclosure of continuous payment authorities

4.6.2 R …

(2) The matters referred to in (1) are:

…

(k) whether default fees and other charges may be added and, if so, the circumstances in which these may be incurred and the amount of such fees and charges or the basis on which they will be calculated.

[Note: paragraph 3.9miii of DCG]

Adequate explanations in relation to regulated deferred payment credit agreements

4.6.2A R Where the *regulated credit agreement* is a *regulated deferred payment credit agreement*, the requirement in *CONC* 4.6.2R(1) to provide the *customer* with an adequate explanation of the matters in *CONC* 4.6.2R(2) may be satisfied by:

(1) including the explanation referred to in *CONC* 4.6.2R(2)(a) as part of the key product information given to the customer in accordance with *CONC* 4.2A.3R(1)(a); and

(2) including the explanations referred to in *CONC* 4.6.2R(2)(b) to (i) and (k) in the additional product information given, or made available, to the customer in accordance with *CONC* 4.2A.3R(1)(b).

…

4.8 Pre-contract: unfair business practices: consumer credit lending

…

Unfair business practices

4.8.2 R A *firm* must not unfairly encourage, incentivise or induce a *customer* to enter into a *regulated credit agreement* quickly without allowing the *customer* time to consider ~~the pre-contract information under section 55 of the *CCA* and the explanations provided under *CONC* 4.2.5 R.~~:

(1) in relation to a *regulated credit agreement* other than a *regulated deferred payment credit agreement*, the pre-contract information under section 55 of the *CCA* and the explanations provided under *CONC* 4.2.5R; or

(2) in relation to a *regulated deferred payment credit agreement*, the information given, or made available, to the customer under *CONC* 4.2A.3R(1)).

[**Note:** paragraph 5.10 of ILG]

…

6 Post contractual requirements

…

6.7 Post contract: business practices

…

Authorised non-business overdraft agreements: reductions in credit limits

…

6.7.42 G …

Regulated deferred payment credit agreements: information provided to customers during the course of a regulated deferred payment credit agreement

6.7.43 G (1) When dealing with *customers* during the course of a *regulated deferred payment credit agreement*, a *firm* should pay due regard to its obligations under *Principle* 12 and *PRIN* 2A (the Consumer Duty).

(2) *Firms* are reminded of their obligations under:

(a) the consumer understanding outcome *rules* in *PRIN* 2A.5, including in particular *PRIN* 2A.5.3R to *PRIN* 2A.5.6R and *PRIN* 2A.5.10R; and

(b) the consumer support outcome *rules* in *PRIN* 2A.6, including in particular *PRIN* 2A.6.2R.

…

7 Arrears, default and recovery (including repossessions)

…

7.6 Exercise of continuous payment authority

Recovery and continuous payment authorities etc.

…

7.6.2B R …

Regulated deferred payment credit agreements: adequate explanations relating to continuous payment authorities

7.6.2C R References in *CONC* 7.6.2G and *CONC* 7.6.2AR to the adequate explanation required by *CONC* 4.6.2R include, in relation to a *regulated deferred payment credit agreement*, where the explanations were included in the product information in compliance with *CONC* 4.6.2AR.

…

Insert the following new section, CONC 7.20, after CONC 7.19 (Notice of default sums under P2P agreements) All the text is new and is not underlined.

7.20 Regulated deferred payment credit agreements: information about missed payments and giving notice before taking certain action.

Missed payments

7.20.1 R (1) This *rule* applies where a *borrower* has failed to make a payment by the time it has fallen due under the terms of a *regulated deferred payment credit agreement* (‘a missed payment’).

(2) As soon as possible after a missed payment has occurred the *firm* must:

(a) notify the *borrower*:

(i) that the missed payment has occurred; and

(ii) about any sums which have become payable under the *regulated deferred payment credit agreement* but remain unpaid (including unpaid charges for non-compliance with the agreement); and

(b) provide the *borrower* with sufficient information for the *borrower* to understand:

(i) which *regulated deferred payment credit agreement* the missed payment relates to;

(ii) any immediate or future adverse consequences for the *borrower* arising out of the missed payment; and

(iii) (where relevant) any steps the *borrower* can take to mitigate those adverse consequences.

(3) The information required under (2) must be provided together.

(4) In this *rule* references to 'payment' refer to the repayment of capital but exclude payment of a charge for non-compliance with a *regulated deferred payment credit agreement*.

7.20.2 G For the purposes of *CONC* 7.20.1R(2)(b)(ii) and (iii) the *firm* should consider in particular the circumstances in which:

(1) the *firm* applies charges in respect of missed payments; and

(2) the *firm* reports missed payments to a *credit reference agency*.

Giving notice before taking certain action

7.20.3 R (1) Before a *firm* takes any of the actions specified in (2) it must give the *borrower* reasonable notice of its intention to do so.

(2) The actions mentioned in (1) are:

(a) taking steps to enforce a term of a *regulated deferred payment credit agreement* by:

(i) demanding the earlier payment of any sum;

(ii) treating any right conferred on the borrower by the agreement as terminated, restricted or deferred; or

(iii) enforcing any *security*;

(b) terminating a *regulated deferred payment credit agreement*.

(3) If any of the actions mentioned in (2) are conditional on whether the *borrower* takes steps in response to notice given by the *firm*, the *firm* must explain that to the *borrower* when giving notice by setting out:

(a) the steps that the *borrower* is required to take; and

(b) the date by which such steps must be taken.

[**Note:** see section 129(1) of the *CCA*.]

Amend the following as shown.

11 Cancellation

11.1 The right to cancel

…

11.1.2 R …

11.1.2A G As the distance marketing provisions in *CONC* 2.7 do not apply in relation to a *regulated deferred payment credit agreement* there is no right to cancel under *CONC* 11.1.1R in respect of a *regulated deferred payment credit agreement* to which section 66A (Right to withdraw) of the *CCA* applies.

…

Insert the following new chapter, CONC 16, after CONC 15 (Agreements secured on land). All the text is new and is not underlined.

16 Requirements for firms with deferred payment credit temporary permission

16.1 Application and purpose

16.1.1 R This chapter applies to a *firm* with a *deferred payment credit temporary permission*.

16.1.2 G The purpose of these *rules* is to provide that certain provisions of the *Handbook*:

(1) that would otherwise apply to *persons* with a *deferred payment credit temporary permission* are not to apply to those *persons*; or

(2) are to apply to those *persons* with the modifications specified in the table in *CONC* 16.1.5R.

16.1.3 G In addition to the disapplication and modifications set out in *CONC* 16.1.5R, *SYSC* TP 14 makes transitional provision about the application of the senior managers and certification regime to *firms* with a *deferred payment credit temporary permission*.

Disapplication or modification of certain modules or provisions of the Handbook

16.1.4 R The modules or parts of the modules of the *FCA Handbook* listed in the table in *CONC* 16.1.5R:

(1) do not apply, to the extent set out in the table, to a *person* with a *deferred payment credit temporary permission* with respect to the carrying on of a *deferred payment credit activity*; or

(2) are to apply to such *persons* with the modifications specified in the table in *CONC* 16.1.5R.

16.1.5 R Table: Disapplied or modified modules or provisions of the Handbook

<table>
<tr><th>Module</th><th colspan="2">Disapplication or modification</th></tr>
<tr><td rowspan="3">Threshold Conditions (COND)</td><td colspan="2">The guidance in COND applies with the necessary modifications to reflect Part 4 of the Deferred Payment Credit Order (see Notes 1 and 2).</td></tr>
<tr><td>Note 1</td><td>A firm has deferred payment credit temporary permission on and after the deferred payment credit regulatory commencement date to carry on deferred payment credit activity where the conditions set out in Part 4 of that Order have been met. According to article 11(6) of the Deferred Payment Credit Order, the duty imposed by section 55B(3) of the Act (satisfaction of threshold conditions) does not apply where the FCA exercises its powers under:

(a) section 55J of the Act (variation or cancellation on initiative of regulator),
(b) section 55H of the Act (variation by FCA at request of authorised person), or
(c) section 55L of the Act (imposition of requirements by FCA)

in relation to a firm that has deferred payment credit temporary permission in relation to deferred payment credit activity carried on under its deferred payment credit temporary permission. Guidance in COND should be read accordingly.</td></tr>
<tr><td>Note 2</td><td>The effect of article 11(9)(a) of the Deferred Payment Credit Order is that the deferred payment credit activity for which a firm has deferred payment credit temporary permission is to be treated as if it were not a regulated activity for the purposes of construing the reference to the only regulated activities that a person carries on, or seeks to carry on, contained in paragraphs 2C(1A), 2D(3A) and 2F(3) of Schedule 6 to the Act. This means that a firm may have limited permission while also having a deferred payment credit temporary permission despite deferred payment credit activity not being a relevant credit activity,</td></tr>
</table>

		and the *guidance* in *COND* 1.1A.5AG should be read accordingly.
Statements of Principle and Code of Practice for Approved Persons (*APER*)	For the purposes of determining the application of *APER* where a *firm's permission* includes *permission* to carry on *regulated activities* granted by the *FCA* under Part 4A of the *Act* (as well as *permission* arising by virtue of a *deferred payment credit temporary permission*): (1) where the application of a provision is determined in whole or in part by reference to the *firm's permission*, the *firm's deferred payment credit temporary permission* is to be disregarded; and (2) where the application of a provision is determined in whole or in part by reference to *regulated activities* carried on by the *firm* or its *appointed representative*, any *deferred payment credit activit*y of the *firm* or its *appointed representative* which falls within scope of the *firm's deferred payment credit temporary permission* is to be treated as if it were not a *regulated activity*.	
	Note 3	Article 11(2)(d) of the *Deferred Payment Credit Order* provides that a *deferred payment credit temporary permission* does not have effect as a *Part 4A permission* for the purposes of section 59 of the *Act*.
	Note 4	The effect of *SYSC* TP 14.3R is that a *firm* with only a *deferred payment credit temporary permission* is not an *SMCR firm*. *APER* will therefore not apply to such a *firm*.
General Provisions (GEN)	(1) For a *firm* with only a *deferred payment credit temporary permission*, *GEN* 4 Annex 1R is modified so that the following disclosure must be included in place of the required disclosure for a *UK domestic firm* or *overseas firm*: 'Deemed authorised and regulated by the Financial Conduct Authority for the purposes of the Temporary Permission regime for Regulated Deferred Payment Credit. Details of the Temporary Permission regime, which allows firms to carry on deferred payment credit activities while seeking full authorisation, are available on the Financial Conduct Authority's website.' (2) For a *firm* whose *permission* includes *permission* to carry on *regulated activities* granted by the *FCA* under Part 4A of the *Act* (as well as a *deferred payment credit temporary permission*), *GEN* 4 Annex 1R is modified so	

<table>
<tr>
<td></td>
<td colspan="2">that the disclosure in (1) must be included in addition to the disclosure in that Annex.

(3) Where a firm to which (1) or (2) applies is in supervised run-off, the firm must use the following status disclosure in place of, or in addition to, as applicable, the status disclosure in GEN 4 Annex 1R:

‘Deemed authorised and regulated by the Financial Conduct Authority for the purposes of the Supervised run-off regime for Regulated Deferred Payment Credit. Details of the Supervised run-off regime, which allows firms to service deferred payment credit agreements for a limited period, are available on the Financial Conduct Authority’s website.’

(4) The guidance in GEN 4.3.2A is modified accordingly.</td>
</tr>
<tr>
<td rowspan="3">Supervision manual (SUP)</td>
<td colspan="2">SUP 6 (Applications to vary and cancel Part 4A permission and to impose, vary or cancel requirements) applies with the necessary modifications to reflect Part 4 of the Deferred Payment Credit Order (see Note 5).</td>
</tr>
<tr>
<td>Note 5</td>
<td>Article 11(4) of the Deferred Payment Credit Order provides that if a firm with deferred payment credit temporary permission applies to the FCA under:

(a) section 55A of the Act for permission to carry on a regulated activity that is not a deferred payment credit activity; or
(b) section 55H of the Act to vary a permission that is not a deferred payment credit temporary permission by adding a regulated activity that is not a deferred payment credit activity,

the application may be treated by the FCA as relating also to some or all of the regulated activities for which the firm has deferred payment credit temporary permission.</td>
</tr>
<tr>
<td colspan="2">For the purposes of determining the application of SUP 10A (FCA Approved Persons in Appointed Representatives) where a firm’s permission includes permission to carry on regulated activities granted by the FCA under Part 4A of the Act (as well as permission arising by virtue of a deferred payment credit temporary permission):</td>
</tr>
</table>

	(1) if the application of a provision is determined in whole or in part by reference to the *firm's permission*, the *firm's deferred payment credit temporary permission* is to be disregarded; and (2) if the application of a provision is determined in whole or in part by reference to *regulated activities* carried on by the *firm* or its *appointed representative*, any *deferred payment credit activit*y of the *firm* or its *appointed representative* which falls within scope of the *firm's deferred payment credit temporary permission* is to be treated as if it were not a *regulated activity*.	
	Note 6	Article 11(2)(d) of the *Deferred Payment Credit Order* provides that a *deferred payment credit temporary permission* does not have effect as a *Part 4A permission* for the purposes of section 59 of the *Act*.
	Note 7	The effect of *SYSC* TP 14.3R is that a *firm* with only a *deferred payment credit temporary permission* is not an *SMCR firm*. *SUP* 10A will therefore not apply to such a *firm*.
	SUP 11 (Controllers and close links) does not apply to a *firm* with only a *deferred payment credit temporary permission* (see Note 8).	
	Note 8	A *firm* that was not an *authorised person* immediately before the *deferred payment credit regulatory commencement date* is not to be treated as an *authorised person* for the purposes of Part 12 of the *Act* (Control over authorised persons) by virtue of holding a *deferred payment credit temporary permission* (see article 11(7) of the *Deferred Payment Credit Order*).
	The *guidance* in *SUP* 12 (Appointed representatives), and any *guidance* elsewhere in the *Handbook*, concerning the effect of section 39 of the *Act*, applies with the modifications necessary to reflect article 11(2)(b) and (3) of the *Deferred Payment Credit Order*.	
	Note 9	The effect of articles 11(2)(b) and (3) of the *Deferred Payment Credit Order* is that if the only activities in a *firm's permission* are those permitted by virtue of a *deferred payment credit temporary permission* (or for which the *firm* has a *limited permission*), the

		firm may still be an *appointed representative* in relation to the carrying on of other *regulated activity* which is comprised in the business for which the *firm's principal* has accepted responsibility.
	SUP 16 does not apply: (1) to a *firm* with only a *deferred payment credit temporary permission*; or (2) to any other *firm*, with respect to: (a) the *firm's deferred payment credit temporary permission*; and (b) the carrying on of *deferred payment credit activity* for which it has *deferred payment credit temporary permission*.	
Disputes Resolution: Complaints sourcebook (*DISP*)	(1) *DISP* 1.10 (Complaints reporting rules) does not apply to a *firm* with only a *deferred payment credit temporary permission*. (2) Where a *firm's permission* includes *permission* to carry on *regulated activities* granted by the *FCA* under Part 4A of the *Act* (as well as *permission* arising by virtue of a *deferred payment credit temporary permission*) *complaints* about *deferred payment credit activity* are not to be included by that *firm* in a report required by *DISP* 1.10 (Complaints reporting rules). (3) Where a *firm* with *deferred payment credit temporary permission* is granted *Part 4A permission* by the *FCA* to carry on *deferred payment credit activity*, or has its *Part 4A permission* varied to include *permission* to carry on *deferred payment credit activity*, the *firm* must report all *complaints* concerning *deferred payment credit activity* received during the period when the *firm* had *deferred payment credit temporary permission*, in its first report due under *DISP* 1.10.	
	Note 10	The effect of (2) is that the *firm* is not required to include *complaints* concerning *deferred payment credit activity* carried on by virtue of the *firm's deferred payment credit temporary permission* in a report required by *DISP* 1.10. But in the circumstances mentioned in (3), the *firm* must include all such *complaints* received during the period when the *firm* had *deferred payment credit temporary permission*, in its first report due under *DISP* 1.10.

Glossary	Where necessary for the purposes of article 11(2)(b) and (3) of the *Deferred Payment Credit Order*, the definition of ‘appointed representative’ is to be read subject to those provisions.

Interpretation

16.1.6 R In the table in *CONC* 16.1.5R, ‘a firm in supervised run off’ means a *firm* that continues to have *deferred payment credit temporary permission* to enable it to wind down (run off) its *deferred payment credit lending* business by virtue of article 10(3)(c)(ii) or (d)(ii) of the *Deferred Payment Credit Order*.

Annex G

Amendments to the Perimeter Guidance manual (PERG)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless stated otherwise.

2 Authorisation and regulated activities

…

2.7 Activities: a broad outline

…

Credit broking

…

2.7.7F G An activity is not *credit broking* within *PERG* 2.7.7EG(1), *PERG* 2.7.7EG(4), *PERG* 2.7.7EG(5) or *PERG* 2.7.7EG(6) if the exemption relating to the number of repayments to be made would apply to the *credit agreement*, see *PERG* 2.7.19GG.

2.7.7FA G An activity is also not *credit broking* within *PERG* 2.7.7EG(1) to *PERG* 2.7.7EG(6) in so far as the activity is carried on in relation to a *regulated deferred payment credit agreement*.

…

Exemptions relating to number of repayments to be made

2.7.19G G A *credit agreement* is also an exempt agreement in the following cases:

(1) if (subject to *PERG* 2.7.19HG and *PERG* 2.7.19HAG):

…

…

…

2.7.19H G …

Regulated deferred payment credit agreements

2.7.19HA G (1) The exemption described in *PERG* 2.7.19GG(1) does not apply to *credit agreements* which meet the definition of a *regulated deferred payment credit agreement*.

(2) *Regulated deferred payment credit agreements* do not benefit from the exemption in *PERG* 2.7.19GG(1) referred to in (1) because of

amendments made to article 60F of the *Regulated Activities Order* by article 3(3) of the *Deferred Payment Credit Order*. The effect of these changes is that the following agreements entered into on or after the *deferred payment credit regulatory commencement date* which are not secured on land will not be exempt under article 60F(2) (even if the other conditions in article 60F(2)(a) to (d) are met):

(a) agreements where:

(i) the lender and the supplier are not the same person; and

(ii) article 60F(7B) of the *Regulated Activities Order* does not apply to the agreement (see (3) below); or

(b) agreements made in the following way:

(i) a person ('the principal supplier') offers to supply goods or services to a consumer ('the consumer') financed by a *credit agreement* provided by another person ('the lender');

(ii) the lender, under a pre-existing arrangement with that principal supplier, purchases the goods or services from the principal supplier, for supply to the consumer; and

(iii) the lender is, in relation to the *credit agreement* with the consumer mentioned in (i), also the supplier of the goods or services to that consumer.

(3) Provided the conditions in article 60F(2)(a) to (d) of the *Regulated Activities Order* are met in respect of the agreement, the exemption described in *PERG* 2.7.19GG(1) will apply to the following types of agreements to which article 60F(7B) of the *Regulated Activities Order* applies, even where the *lender* and the supplier are not the same person:

(a) agreements to finance premiums under contracts of insurance;

(b) agreements where:

(i) the borrowers are employees; and

(ii) the agreements result from an arrangement between the *lender* or supplier and:

(A) the *borrowers'* employer; or

(B) an undertaking which is a member of the same group as the *borrowers'* employer;

(c) agreements to finance the provision of goods or services offered by a registered social landlord (as defined by article 36FA(4) of the *Regulated Activities Order*) to:

(i) its tenants;

(ii) its leaseholders; or

(iii) persons with whom the registered social landlord has entered a shared ownership agreement within the meaning of section 83(3) of the Housing (Scotland) Act 2001.

…

2.8 Exclusions applicable to particular regulated activities

…

Credit broking

2.8.6C G The following activities are excluded from the *regulated activity* of *credit broking*:

…

Activities carried on by registered social landlords

(6A) …

Activities carried on in relation to regulated deferred payment credit agreements

(6B) Activities carried on in relation to a *regulated deferred payment credit agreement* are excluded from *credit broking*.

…

8 Financial promotion and related activities

…

8.12 Exemptions applying to all controlled activities

…

Introductions (article 15)

…

8.12.11A	G	This exemption does not apply to any *financial promotion* that is made with a view to, or for the purpose of, an introduction to a person who carries on the *controlled activities* of: (1) credit broking; (2) operating an electronic system in relation to lending; ~~or~~ (2A) providing relevant consumer credit in relation to a *regulated deferred payment credit agreement*; or (3) agreeing to carry on the above activities.

…

Appendix 2

Data

1. We rely on multiple sources of data for our analysis: a survey which we sent to all 24 firms we understood to be offering DPC; a detailed transaction-level data request which we sent to the three largest firms in the market, both in October 2024; CRA data; and external academic and experimental research.

Firm survey

2. Our survey asked firms three sets of questions: aggregated data on their operations, information on their current practices, and estimates of the expected costs they expect to incur as a result of our proposals. In particular, we asked questions about:

- Firms' business models,
- High level standards,
- Information requirements,
- Financial promotions,
- Creditworthiness,
- Post-contractual business practices, and
- Complaints handlings

3. We received responses from 13 firms, 11 of which were authorised which has led to a larger gap in our understanding of unauthorised firms. Our data is representative of the market because it includes the three largest firms which account for over 90% of the market, as well as 8 small and medium-sized authorised firms. Where we have reason to think that costs have been misrepresented or missed out, we use alternative sources of evidence such as internal knowledge and previous CBAs.

4. We also asked for annual data from firms from 2019-October 2024, including information on revenue, transactions, customers, applications, and missed payments. We have uprated 2024 figures on a pro-rated basis to the full 12 months. We note our data misses two big-spending times of the year in Black Friday and Christmas and may therefore be an underestimate of total value of transactions.

Transaction-level data

5. We collected transactions made by an approximately 10% quasi-random sample of each firms' customers from January 2017 (or from the point the firm entered the UK market if later) to the end of October 2024, which was then matched to internally-held CRA data[21].

21 One firm's second submission used a different sampling methodology which had implications for the number of CRA records we were able to match.

6. Table 26 outlines the information we have available to us following the data request and match.

Table 26: Outline of the datasets

Dataset	Description
Customer details	Information on all customers who made a credit application and/or attempted to sign up to during the time period, including customer characteristics and variables influencing whether an application is accepted at sign-up
Transaction information	Information on all credit applications (accepted and rejected) that were made during the time period, including transaction type and amounts
Repayment records	Information on repayments for all successful credit applications that were made during the time period, including repayment amounts and missed and late repayments
Merchant details	Information on contracts with retailers that the DPC firm partnered with at any point during the time period, including fees charged and contract details
Credit Reference Agency data	Information on a consumers' wider financial position, including balances on other credit products held and financial difficulty measures

External academic and experimental evidence

7. We also rely on external evidence to underpin some of the assumptions we make on the impact of our proposals. Where we do so, we include sources for this evidence and briefly summarise the results.

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12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk

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