

Report to the Tyne and Wear Trading Standards Joint Committee

4 March 2021

Government Announcement: Buy-Now-Pay-Later Products to be regulated.

Anneliese Hutchinson, Service Director, Economy, Innovation & Growth, Gateshead Council

Purpose of the report

To update the Committee on the Government announcement on the 2 February 2021 that Buy-Now-Pay-Later schemes are to be regulated.

1. Interest-free buy-now-pay-later credit agreements will be regulated by the Financial Conduct Authority (FCA) in order to protect consumers under plans announced by the Government.
2. Buy-now-pay-later products are rapidly increasing in popularity, with the volume of transactions tripling in 2020 as the pandemic drove online shopping, and the Government has taken the view that there is now a significant risk that these agreements could cause harm to consumers.
3. The announcement comes as a review of the unsecured credit market, led by Christopher Woolard, recommends bringing interest-free buy-now-pay-later into FCA supervision.
4. John Glen, Economic Secretary to the Treasury, said:
 - “Buy-now-pay-later can be a helpful way to manage your finances but it’s important that consumers are protected as these agreements become more popular. By stepping in and regulating, we’re making sure people are treated fairly and only offered agreements they can afford – the same protections you’d expect with other loans.”
5. Buy-now-pay-later schemes have been identified as having some clear benefits - such as allowing people to manage their finances by spreading the cost of a purchase interest-free – but the Woolard Review found several potential harms which can be mitigated by bringing these agreements into regulation.
6. Many consumers do not view interest-free buy-now-pay-later as a form of credit, so do not apply the same level of scrutiny, and checks undertaken by providers tend to focus on the risk for the business, rather than how affordable it is for the customer.
7. Although the average transaction tends to be relatively low, shoppers can take out multiple agreements with different providers – and the Review finds it would be relatively easy to accrue around £1,000 of debt that credit reference agencies and mainstream lenders cannot see.

8. The view is that with several buy-now-pay-later providers planning to expand to higher-value retailers, or offer their products in-store, the risk that consumers could take on unaffordable levels of debt is increasing.
9. The Government's decision to bring buy-now-pay-later into regulation is seen as mitigating these risks by giving the Financial Conduct Authority oversight of buy-now-pay-later providers and allowing consumers to escalate their complaint to the Financial Ombudsman Service if things go wrong.
10. Under these plans, providers will be subject to FCA rules so will need to undertake affordability checks before lending and ensure customers are treated fairly, particularly those who are vulnerable or struggling with repayments.
11. The Woolard Review made a series of additional recommendations across the unsecured credit market. The Government has welcomed these proposals, which it will examine and respond to in due course.

Recommendation

12. The Committee is asked to note the information.

Contact: Judith Shewan, South Tyneside Council, on 0191 4247891 or Judith.shewan@southtyneside.gov.uk
