Buy-now-pay-later rules in the UK will change in 2026, but will they offer protection or exclusion?

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Buy-now-pay-later rules in the UK will change in 2026, but will they offer protection or exclusion?

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Buy-now-pay-later is an appealing proposition. You get what you want now, but you delay settling the bill until later, with no interest and no fees.

It's how lots of things are bought. The UK's buy-now-pay-later (BNPL) sector has nearly 23 million users and was worth £28 billion in 2025.

In 2026 though, it will face a major transformation. From mid-July, its lenders – the likes of Klarna and PayPal – will be regulated in the UK for the first time by the Financial Conduct Authority watchdog.

This marks a major change for a sector that has largely operated outside consumer credit regulation – and could fundamentally change how millions of people manage their their finances.

The government says the new legislation is designed to protect shoppers, end the "wild west" of some BNPL schemes, and even drive economic growth.

So from July, BNPL lenders will have to run affordability checks. They will also need to be more transparent about terms and conditions, establish a proper system for handling customer complaints, and prove that they are financially stable.

And it's easy to see why the sector might require a bit more oversight. A quarter of UK users have experienced late payment charges, with younger shoppers increasingly affected by missed payments. (BNPL providers make money out of this, but their primary revenue comes from taking a percentage of each BNPL transaction from the retailer, plus a service fee.)

There is also research which suggests that many people use credit cards (typically carrying interest rates of around 20%) to make their interest-free BNPL payments, raising serious questions about financial literacy and debt spirals.

But the coming protections may significantly change the market, imposing operational costs that could affect smaller providers. This may lead to greater market dominance by major players like Klarna and Clearpay, potentially stifling innovation and reducing choice.

And choice is surely what has made BNPL so appealing and successful in the first place. It was an innovative new payment method that disrupted the world of traditional credit.

Research in behavioural economics shows us that people tend to favour instant rewards and consider split payments to be more manageable.

Aussie rules

The UK's change to BNPL regulation follows a similar move in Australia in June 2025. And while it is too early for a definitive evaluation, not everything there has run as smoothly as anticipated.

Banks, now legally required to scrutinise all financial commitments during credit assessments are reportedly advising some customers to close BNPL accounts to improve their borrowing capacity. It has also been claimed that consumers who used BNPL to manage cash flow sensibly now face barriers to accessing mortgages.

The same problems may be avoided in the UK, if affordability checks are designed to fit BNPL's short-term, interest-free nature. Yet whether this provides sufficient protection remains contentious. Research shows that nearly one in five BNPL users are layering debt, using credit cards to fund their payments.

But strict regulation creates a significant risk of its own. Research on consumer credit regulation suggests that if BNPL becomes inaccessible, vulnerable consumers do not simply stop borrowing. Instead they borrow elsewhere, often at much greater cost.

They may turn to overdrafts with punishing fees, payday lenders with minimal oversight, or informal lending with no consumer protection.

Looking at who uses BNPL, the demographic data complicates this further. With usage concentrated in deprived areas and among younger populations, the regulatory framework will disproportionately affect financially constrained groups.

For these users, BNPL often serves as a budgeting tool allowing the cost of groceries or other essential purchases to be managed over time. Affordability checks might protect some people from overextending themselves financially, but they will also mean transactions are declined for responsible people using BNPL to manage predictable, necessary expenses.

The regulations will succeed or fail based on outcomes we can only measure later on. So if BNPL default rates decline but unauthorised overdraft usage rises, a problem has been shifted rather than solved.

Likewise, analysing which demographic groups are most often refused BNPL permission will show whether regulation disproportionately excludes the vulnerable populations it aims to protect.

Either way, millions of BNPL users will experience material changes to a financial tool many have integrated into routine spending patterns. For some, particularly those at risk of debt spirals, increased protections will prevent financial harm.

For others, including responsible users managing cash flow during temporary shortfalls, affordability checks may create new barriers without providing any meaningful protection at all.