

**Klarna Bank AB (publ) response  
to HM Treasury Regulation of  
Buy-Now Pay-Later  
consultation.**

January 2022.

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## Introduction.

**Klarna supports the regulation of Buy-Now Pay-Later (BNPL) in the UK and welcomes the direction outlined by HM Treasury (HMT) in this consultation<sup>1</sup>.** Since committing to regulate BNPL following the publication of the Financial Conduct Authority's (FCA) Review into Unsecured Credit - the '[Woolard Review](#)'<sup>2</sup> - in February 2021, HMT has rightly stressed the importance of BNPL as an inherently lower risk and lower cost alternative to traditional high cost credit.

**Ahead of future Consumer Credit Act (CCA) reform, which we see as vital to achieve a UK regulatory environment that is fit for today's credit sector, we believe that the regulation of BNPL should sit principally within existing FCA requirements.** However, we support prevailing CCA rules where we believe they still provide the best consumer protections and outcomes. As a 'stepping stone' towards broader CCA reform, we have defined additional outcomes based metrics that, where appropriate, can be used by the FCA to hold providers to account and ensure the highest standards ahead of such reform.

**We will continue to work with HMT and the FCA to help create a competitive market for UK consumer credit - including BNPL - which encourages innovation and drives good consumer outcomes.** We believe this can be achieved through a straightforward and proportionate set of outcome-based regulations for the UK BNPL sector that hold all providers to a high standard, without inadvertently restricting availability of BNPL to either consumers or the retailers offering these products, and thereby inadvertently forcing consumers back towards traditional higher cost types of credit such as overdrafts, credit cards, store cards or other forms of interest bearing instalments.

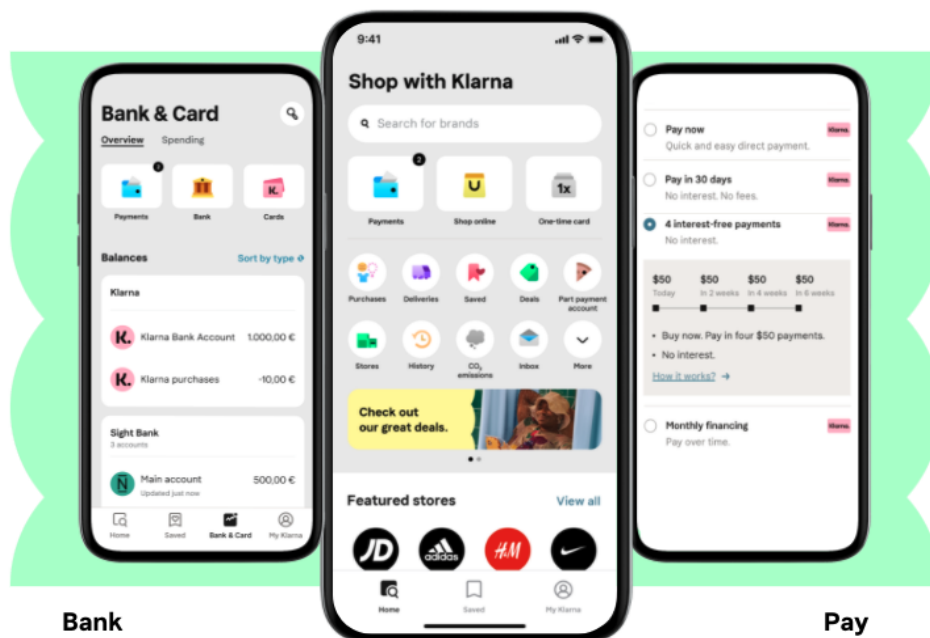
**Wherever appropriate, we have supported our assessments with relevant data from our own research as well as third party thought leadership, surveys of Klarna consumers and general population surveys.** We would be happy to provide further information on any aspect of our response or discuss anything covered in greater detail if useful.

# Who is Klarna.

**Klarna offers a fairer, more sustainable way to shop, pay & bank.** The business was founded in 2005 in Stockholm, Sweden, with the aim of creating trust online between consumers and retailers<sup>3</sup>. Globally, we now have over 90 million consumers and more than 250,000 retail partners across 20 countries<sup>4</sup>. Those consumers make over 2 million purchases a day using Klarna, and we have more than 45 million downloads of our app<sup>5</sup>.

**We are more than just shopping and payments, having secured our banking licence in Sweden in 2017<sup>6</sup>.** We currently offer current and savings accounts to consumers in Sweden and Germany and also hold the largest Open Banking network in Europe, covering 6,000 banks in 20 countries<sup>7</sup>.

**People can shop, pay & bank with Klarna.** This gives consumers flexibility to save more time for the things they love, and experience a better way to shop.



**Bank**

An integrated banking experience where you can **take control of your finances** and manage your money in a seamless way.

**Shop**

Discover thousands of brilliant brands already using Klarna. Get personalised inspiration, exclusive deals, track your deliveries and returns. **Enjoy the freedom to shop responsibly.**

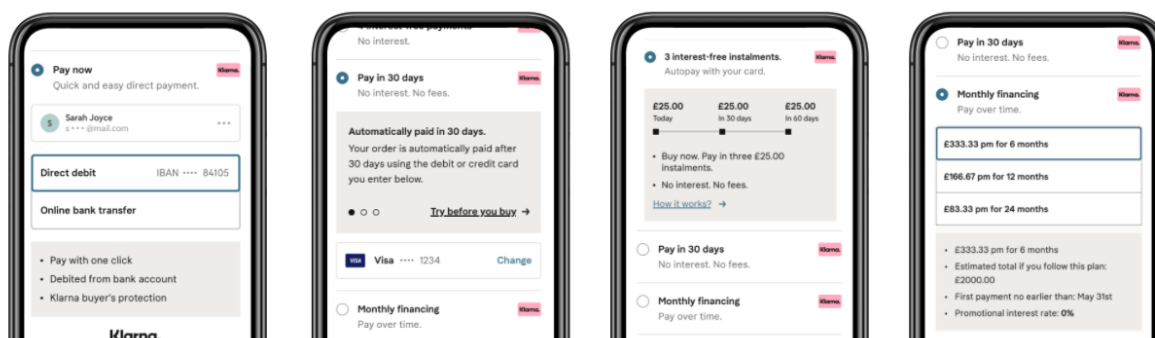
**Pay**

Pay now, up to 30 days later, or split the cost into manageable interest-free monthly instalments. **Consumer choice** when it comes to fairer and more sustainable payments.

**Klarna launched in the UK in 2015.** We have become one of the largest and most loved providers of BNPL payment products in the UK. Today Klarna has over 16 million UK consumers and 5 million app downloads, and partners with more than 18,000 UK retailers<sup>8</sup>.

## Our payment products in the UK.

Klarna offers consumers a choice of four different payment methods in the UK, ranging from immediate payment with 'Pay Now' to 6-36 month credit through our Fair Financing option.



Pay Now

Pay in 30 days

Pay in 3

Fair Financing

<p><b>Pay Now</b></p>	<ul style="list-style-type: none"> <li>• We offer a safe and easy way for retailers to process card payments that are integrated into their checkout and their customers' online experience.</li> <li>• This provides the consumer a seamless payment experience using their Klarna login credentials instead of having to input card details over and over again and share their sensitive personal data with retailers.</li> </ul>
<p><b>Pay in 30 days</b></p>	<ul style="list-style-type: none"> <li>• Consumers have up to 30 days to pay for their goods after the item is shipped and delivered to them.</li> <li>• This allows consumers to return any items they do not want and only pay for those items they wish to keep, avoiding the need to wait for a refund. Pay in 30 is free from interest and fees to the consumer and is often used to 'try before you buy' when shopping online.</li> </ul>
<p><b>Pay in 3</b></p>	<ul style="list-style-type: none"> <li>• Allows consumers to split the cost of their purchase into 3 equal monthly instalments, interest and fee free.</li> <li>• The first payment is taken at the time of purchase with the following two payments taken at 30 and 60 days after the purchase.</li> <li>• Pay in 3 allows consumers to spread the cost of a purchase and better manage their cash flow.</li> </ul>
<p><b>Fair Financing</b></p>	<ul style="list-style-type: none"> <li>• These are regulated instalment credit products over 6 to 36 months which are typically for purchases with a higher value and longer lifetime.</li> <li>• This option can be interest bearing. However, most retailers who offer this product choose to do so at 0% interest to the consumer.</li> </ul>

*For the purposes of this consultation, when we refer to our BNPL products, we are referring to our currently unregulated 'Pay in 30 days' and 'Pay in 3' BNPL payment options.*

**Across all our credit products, we conduct eligibility checks on each and every purchase to ensure our lending is responsible.** In addition we will gradually increase the credit available to consumers as they prove their ability to repay. This is essential to our business model as we make our income by charging retailers a service fee when a consumer purchases something from them through Klarna, rather than charging consumers interest or fees.

**We give retailers their money upfront** (less the retailer's service fee) meaning we also take on all the risk and cost of consumers not paying. **We also take on the risk of a retailer not fulfilling orders made by consumers** - i.e. in the event of non-delivery. In these circumstances, our consumers are protected by our [Buyer Protection](#)<sup>9</sup> service, so consumers can shop using Klarna with confidence.

## Our consumers.

**At Klarna we have a set of consumer promises** to ensure we always have our consumer's best interests at heart and are leading the way in terms of fairer and more sustainable credit:

- **Save time:** by providing simple & secure login, fast checkout, and easy returns.
- **Save money:** by offering discounts and price drops, choice of payment options with no unnecessary interest or fees, and loyalty rewards.
- **Manage cash flow:** by helping consumers spread the cost of purchases in a way that aligns with their salary cycle through interest free instalments, ability to 'snooze' payments, plus integrated budgeting tools.
- **Informed decisions:** by communicating transparently at all times including checkout, payment reminders, environmental impact of purchases and tracking of deliveries.

**Each consumer is one in 90 million.** The average Klarna consumer in the UK is 34, however 41-55 (Gen X) is the fastest growing age group<sup>10</sup>. 93% of UK consumers have a near prime to super prime credit score<sup>11</sup>. Just over two thirds of Klarna users in the UK identify as female and are typically our most responsible consumers, more likely to make repayments ahead of the due date and much less likely to default, with defaults nearly half those of males<sup>12</sup>. The average purchase value with Klarna is £75 and 98% of purchases made using Klarna do not total more than £350<sup>13</sup>.

## Our retailers and partners.

**Our retailers and partners are finding multiple benefits in providing BNPL payment options to their customers.** Be that to attract and build loyalty with their customer base, more support to improve their online or instore offering, or to accelerate their global growth ambitions. As a result, BNPL is now available in a diverse range of consumer markets, from retail sectors such as fashion, electronics and homewares, to service sectors like travel, experiences and vet practices.

According to Bain & Company ('Bain'), who recently [conducted a study](#)<sup>15</sup> of the BNPL market, retailers value BNPL because it not only helps to introduce their brand to new customers but also helps retailers build and retain consumer loyalty. According to our own research, over 70% of consumers said they have left a retailer's website because BNPL was not available as a payment option and continued their purchase elsewhere<sup>16</sup>.

## An industry that has lost touch.

Klarna's consumers are diverse in all aspects, but they share one thing in common - they resent the way the traditional financial services industry has profited at their expense.

Trust in banks is at an all time low and, according to the [Edelman Trust Barometer](#)<sup>17</sup>, just 52% of people trust financial services, the lowest of all business categories. There are many reasons for this but ultimately banks have built their credit products and services to ensure that they maximise their income and profits by keeping consumers in debt while at the same time minimising their costs by providing them with very poor service.

This is particularly the case in the UK where, having lobbied against BNPL, given the changes in consumer preference, UK banks are now launching countless products advertised as BNPL. But when you look more closely at the details, these continue to come with high interest charges - typically in excess of 20% APR - and in reality are just credit cards in disguise<sup>18</sup>.

## So how should you pay.

At Klarna we fundamentally believe that you should pay with the money you have. Consumers are increasingly agreeing, with 57% of millennials not having a credit card<sup>19</sup>. Around 40% of our global transactions are debit rather than credit, through our 'pay now' option<sup>20</sup>. However, there are moments when credit makes sense - this could be for protection or to 'try before you buy' when shopping online to ensure you are satisfied with the product before you pay for it. As Christopher Woolard said in his [review](#)<sup>21</sup>: "Credit makes economies work and has a social purpose".

The key is asking the right questions when choosing credit. Like:

- How much does it cost?
- Is the payment length right for the purchase?
- How do your lender's practices affect you?

Ultimately we believe that if you were designing credit from the beginning to answer these questions, you would start with interest free and short term BNPL in the way that Klarna provides, as the fairest and most sustainable form of debt.

	Payday Loans	Credit Cards	Overdraft	Klarna BNPL
How much does it cost?	+1,000% APR (0.8% daily) Rollover fees	0% - 99% APR Membership / late fees	0% - 40% APR Arrangement fees	Interest-free No fees
Is the payment length right for the purchase?	2 weeks - 3 months	30 days - indefinite	Undefined	Immediately / 30 - 60 days
How does your lender's practices affect you?	<ul style="list-style-type: none"> <li>• Credit check per loan application</li> <li>• Complex T&amp;Cs</li> <li>• Rollover / repeat lending</li> <li>• Lower credit limits</li> </ul>	<ul style="list-style-type: none"> <li>• One-off credit check</li> <li>• Complex T&amp;Cs</li> <li>• High APRs for low credit scores &amp; income</li> <li>• Low minimum payments &amp; allow debt to rollover</li> <li>• High credit limits that increase over time</li> </ul>	<ul style="list-style-type: none"> <li>• One-off credit check</li> <li>• Complex T&amp;Cs</li> <li>• Complex late payment and arrangement fees</li> <li>• Lower credit limits</li> </ul>	<ul style="list-style-type: none"> <li>• Dynamic credit check on every purchase</li> <li>• Transparent T&amp;Cs</li> <li>• Short term structured instalments</li> <li>• Friendly reminders for upcoming payments</li> <li>• Credit limit specific to value of purchase</li> </ul>

**And we know this is the case from our consumer outcomes, where we consistently deliver above the UK banks and incumbents across all our core metrics:**

- **Trust & Loyalty:** We have a [Trustpilot score](#)<sup>22</sup> of 4.5/5 (excellent) with over 16,500 excellent (5\*) reviews compared to [Barclays](#)<sup>23</sup>, [Lloyds](#)<sup>24</sup> and [HSBC](#)<sup>25</sup> which all score below 2 (bad). In addition, our Net Promoter Score (NPS)<sup>26</sup> is ~ +80. This is 13x higher than that of traditional credit cards at ~ +6<sup>27</sup>.
- **Defaults:** Our default rate - i.e. the percentage of purchases not paid back to us - is consistently well under 1%, which is lower than the rest of the BNPL sector and 30-40% lower than the average default rate for traditional credit cards<sup>28</sup>.
- **Complaints:** Our consumer complaints remain significantly lower than the traditional credit sector with less than 0.05% of transactions (i.e. <5 in 10,000 transactions) resulting in a complaint. The average complaint rate for credit cards is 30-40% higher<sup>29</sup>.

## **We support regulation for society.**

**Klarna believes that a truly competitive market is the best way to encourage innovation and in turn drive better outcomes for consumers.** However, we recognise competitive markets cannot operate without control and rightly need oversight and guardrails. **Regulation is therefore a vital tool to ensure competition works in the best interests of consumers and protects them from harm.** To fulfil this duty, we strongly support the FCA's belief that regulation should be outcome based rather than simply prescriptive. It must have an ambition to be straightforward to understand, promote mobility and choice, be forward-looking for future products or changes and crucially proportionate to the risks associated with products being regulated.

**On the subject of proportionality, BNPL is an inherently lower risk credit option for consumers when paying for purchases than alternatives such as credit cards,** because it is interest-free and importantly has structured repayments over a short period of time to prevent unsustainable and costly debt building up. The lower risk nature of BNPL products should be the guiding principle in determining how BNPL is regulated to ensure regulation is proportionate.

**More broadly, we want to see this type of proportionate and outcome based regulation applied to the whole credit sector.** That is why we also support the recommendations of [Woolard Review](#)<sup>30</sup> to reform the Consumer Credit Act (CCA) to put it on a more outcomes based footing (recommendation 24) and where appropriate we have proposed additional benchmark metrics to hold providers to account. We see CCA reform as vital for the Government to meet its objectives to grow the UK fintech sector, as set out in the recent [Task force on Innovation, Growth and Regulatory Reform \(TIGRR\)](#)<sup>31</sup> report and [Kalifa fintech review](#)<sup>32</sup>. However, recognising the significance and likely timeline of such reform, we support the proportionate approach proposed by HMT in this consultation on BNPL as a 'stepping stone' towards broader CCA reform.

**At Klarna we continuously work to bring up our standards but unfortunately this is not true of all BNPL providers.** Following the publication of the 'Woolard Review' earlier this year, we have reflected on how we operate and **made a number of proactive improvements**<sup>33</sup>, incorporating learnings from across the UK sector and markets globally:

- Providing the option to 'pay now' as an alternative choice to credit should a consumer want the experience of Klarna without using credit;
- Partnering with retailers to ensure, that our credit products do not appear as a pre-selected payment option at checkout for consumers who have not used BNPL;

- Being clearer with the language we use to market and describe our BNPL products so there is no doubt that they are credit and there are consequences to missing payments;
- Simplifying our terms and conditions so they are more accessible and understandable;
- Trialling the use of Open Banking for affordability assessments to ensure full and timely visibility of income and expenditure plus use of other BNPL products; and
- Establishing our own internal Complaints Adjudicator to offer consumers a route of escalation for their complaints in the absence of the Financial Ombudsman Service (FOS).

**We are excited that the UK is seizing the post-Brexit opportunity to deliver a first rate regulatory environment** that can power growth and technological innovation throughout the economy. We see a positive momentum of change coming from initiatives such as the [Financial Services Future Regulatory Framework Review \(FSFRFR\)](#)<sup>34</sup> and as the Government continues to deliver on the recommendations of the [TIGRR](#)<sup>35</sup> report and the [Kalifa fintech review](#)<sup>36</sup>. What happens next will be crucial for fintech – not just in the UK, but around the world.

## Overview of response.

Our support for regulation of UK BNPL is demonstrated by the fact that we are fully aligned with the vast majority of HMT’s proposals set out in this consultation, as included within our [Detailed Response](#), with an overview of our responses to each question set out below:

### Scope of BNPL regulation. [Questions 1-14].

- We agree with HMT that BNPL is inherently lower risk than traditional credit because it is interest-free and importantly has structured repayments over a short period of time with instalments and clear mechanisms to prevent unsustainable and costly debt building up.
- We believe invoicing for service providers, such as tradespeople, should be left unregulated. However, we question the merits of all forms of short-term, interest free (STIF) credit remaining unregulated. These products may appear to consumers very similar to BNPL and could lead to confusion and differing protections for essentially the same credit product. Much like regulated credit, STIF credit can also be detrimental to a consumer’s credit profile if they fall into default or arrears so it is important proper protections are in place.

### Credit broking. [Questions 15-17].

- We do not believe it is proportionate for retailers offering BNPL to be required to hold a credit broker licence or similar authorisation, given the lower risk nature of these products. We believe this would unfairly impact smaller retailers and those that operate on low margins.
- We welcome HMT’s recognition of this and we support proposals that will make providers more accountable for how their retail partners offer BNPL.

### Advertising and promotions. [Questions 18-19].

- We believe the current guidelines for how BNPL is presented to consumers, as developed and overseen by the Advertising Standards Agency (ASA) and Committee on Advertising Practice (CAP), provide a robust set of product specific guidelines for the sector.
- However, we recognise that not all BNPL providers are proactively adopting these guidelines and so the application of the FCA’s Financial Promotions Regime, with its greater enforcement powers, will help to ensure higher standards and increased consistency across the sector.

### **Pre-contractual information and credit agreements.** [Questions 20-23].

- We strongly support the view that the existing prescriptive CCA regulations for pre-contractual information and credit agreements would not be appropriate for BNPL as they are intended for higher risk types of credit which are often used for higher cost, higher value and longer term credit purchases, and also do not reflect how consumers engage with interest free BNPL through digital channels.
- As a result, we favour a distinct, outcomes based approach for BNPL based on existing FCA rules that places a clear expected regulatory outcome on providers relating to transparency of key features and risks, rather than the requirements laid out in a prescribed form with scripted content that exists for higher risk traditional credit.
- This approach, which would include monitoring of benchmark metrics such as trust levels, defaults and complaints, will ensure that appropriate and more consistent information is shown to consumers when determining which is the right payment method for them, while allowing BNPL providers the ability to continuously innovate on the optimal way to display this information so it achieves the best outcomes for consumers.
- The same proportionate approach should also be taken to how consumers can show they have read and understood the information presented to them. As the evidence in our response shows, asking consumers to provide an e-signature or tick a specific box to say they have understood what they have read does not provide meaningful proof that a consumer has actually engaged with the information.
- Such a process therefore risks adding additional friction compared to using higher cost credit such as credit cards, without achieving better consumer outcomes as a result.

### **Creditworthiness.** [Questions 24-26].

- We agree with HMT that requirements for creditworthiness assessments should be put on a level playing field with those already in place for traditional credit to protect consumers from getting into financial difficulties.
- As part of this, we support appropriate affordability assessments in which providers have the ability to take an outcomes based approach to assessing consumers, which can then be proportionate to the lower risk nature of BNPL. This approach, which would include monitoring of benchmark metrics such as defaults and complaints across all BNPL providers, will ensure that consumers are protected from irresponsible lending and aid the prevention of consumers getting into financial difficulty regardless of which credit product or provider they use.
- As part of strengthening creditworthiness assessments for BNPL, we are calling for an acceleration in the development efforts of the Credit Reference Agencies (CRAs) to facilitate more timely and fuller credit information sharing across all credit products, with the credit scoring systems reformed for the short term nature of BNPL products. This reform should happen in parallel to wider adoption of new sources of data facilitated by innovations such as Open Banking and Open Finance.
- This approach will enable consumers to build their credit scores through repayments of BNPL products and also support those consumers with a limited credit history - i.e. 'thin files' - in using BNPL as a safer, lower risk and lower cost way to build up their credit profile rather than having to resort to higher cost credit cards, which are marketed as a way to 'improve your credit score'.

### **Requirements for financial difficulty.** [Question 27].

- We agree with HMT that regulation for consumers in financial difficulty should be aligned to consumer outcomes regardless of the lending product and sector. Therefore we are supportive that the FCA's current requirements should apply to BNPL.

### **Arrears.** [Question 28].

- We strongly agree that there needs to be rules in place to protect consumers if they default on payments and fall into arrears.

- However, we support the views of trade bodies such as UK Finance, Innovate Finance and the Finance and Leasing Association (FLA), that the current prescriptive regulations to communicate with consumers in arrears, as outlined in the CCA, are inflexible and outdated for all types of credit, and thus are no longer effective and do not provide the best outcomes for consumers.
- Many of the communications, which are prescribed in content and form, are either irrelevant to how BNPL works in practice and/or disproportionate given these products are short-term and interest-free.
- HMT should therefore mandate providers to comply with existing FCA rules on arrears and exclude these CCA regulations from the incoming regime for BNPL.
- In applying these rules, the FCA should set a clear regulatory outcome for providers based on performance metrics, such as the monitoring of default levels and complaints, to ensure the sector is pursuing good outcomes for consumers.
- As the regulation for BNPL develops in the future and as CCA reform moves higher up the policy agenda, we want to see a greater emphasis on requirements to support consumers before they miss a payment - i.e. upcoming payment reminders. These measures help mitigate arrears in the first place and provide much better consumer outcomes.

**Section 75.** [Question 29].

- We agree with HMT that Section 75 protections should apply to BNPL purchases over £100 and under £30,000.

**Small agreements.** [Questions 30-31].

- We agree with HMT that BNPL agreements under £50 should be covered by regulation.

**The Financial Ombudsman Service (FOS).** [Question 32].

- We agree with HMT that BNPL should fall under the jurisdiction of the FOS.
- We support the views of trade bodies, such as Innovate Finance, that the substantial gap between the FOS case fee (£750) and the average purchase value of BNPL (£50-£100) risks creating inappropriate incentives for consumers and firms alike, resulting in complaints being settled ahead of reaching the FOS. We would welcome further engagement on this with HMT, the FCA and the FOS.

Our detailed responses to each question are set out in the next section of this document.

## Detailed response.

We have responded to the questions posed in similar groupings to how they are presented in the consultation itself. Wherever possible we have provided an evidence base for our responses in order to give HMT the most information as possible. We are happy to provide HMT with further data or information on anything outlined in what follows.

### Scope of BNPL regulation.

#### The BNPL market and business models.

**Question 1:** *Do you agree with our analysis of the business models that underpin the BNPL market?*

**Question 2:** *Do you have information to provide the government with a more granular and up-to-date understanding of the BNPL market?*

**Question 3:** *Do you have further analysis or evidence of consumer detriment in the BNPL market?*

**Question 4:** *Do you have analysis that would support us in identifying which specific elements of the BNPL business model pose particular risks?*

#### Summary response :

- We agree with HMT that BNPL is inherently lower risk than traditional credit because it is interest-free and importantly has structured repayments over a short period of time with instalments and clear mechanisms to prevent unsustainable and costly debt building up.

#### Detailed response:

This consultation correctly identifies the core characteristics of many BNPL products available in the UK today as a fairer and more sustainable form of credit. It is important to re-emphasise that BNPL providers don't charge interest to the consumer, and instead charge the retailer a fee to offer these payment methods, which we believe creates a fairer and more level playing field for consumers in terms of access to low cost credit in terms of access to low cost credit. In addition, BNPL products are a more sustainable payment option as they provide small amounts of credit linked to a specific purchase, over a short term, have structured repayments and typically assess eligibility on each and every purchase - thus helping keep people out of debt. As noted by the Government following the publication of the [Woolard Review](#)<sup>37</sup> and again in this consultation, this makes BNPL inherently lower risk than traditional forms of higher cost credit, such as credit cards and other revolving credit products.

In comparing which attributes of BNPL and credit cards would be most likely to result in harm for consumers, it is clear to see why spending with BNPL is considered lower risk than spending on a credit card.

	Klarna BNPL.	UK BNPL market.	Credit Cards.
Average interest rate.	0% <sup>38</sup> .	0% <sup>39</sup> .	<a href="#">21.49%</a> <sup>40</sup> .
Average outstanding debt balance.	£54 <sup>41</sup> .	<a href="#">£200 (78% &lt;£200)</a> <sup>42</sup> .	<a href="#">£2,058 (21% &gt; £1000)</a> <sup>43</sup> .
% of consumers charged a late fee for missed payment.	0% <sup>44</sup> .	52% <sup>45</sup> .	<a href="#">62%</a> <sup>46</sup> .
Default rates.	<1% <sup>47</sup> .	<a href="#">&lt;1 - ~5%</a> <sup>48</sup> .	<a href="#">~1%</a> <sup>49</sup> .
No. of consumers in persistent debt <sup>59</sup> .	0 <sup>50</sup> .	0 <sup>51</sup> .	<a href="#">3 million</a> <sup>52</sup> .
Average net promoter score <sup>60</sup> .	~ +80 <sup>53</sup> .	<a href="#">~ +30</a> <sup>54</sup> .	<a href="#">~ +6</a> <sup>55</sup> .

The above table highlights how the best consumer for Klarna is one who uses BNPL for a purchase and then pays on time and in full. This is the absolute opposite of credit card providers and revolving credit products, whose most profitable consumers are those who stay in debt and hence end up paying interest charges in excess of 20% as well as various fees, from membership to late payments, with UK consumers paying [c.£5.6 billion in credit card interest alone in 2020](#)<sup>56</sup>. It's unsurprising then that the average outstanding debt on credit cards is around 10x higher than on BNPL and that there is clearly greater risk of consumer harm from spending on credit cards.

The interest-free, and in Klarna's case, fee-free, nature of BNPL means consumers never pay more than the original cost of their purchase, which we believe is fairer for consumers, saving them money. According to [Bain](#)<sup>57</sup>, the consultancy, the risk of a consumer getting "stuck" with unaffordable BNPL debt is low, highlighting the more sustainable nature of this type of credit. [Bain](#)<sup>58</sup> also concluded that if all BNPL purchases in the UK over the past 12 months had been instead conducted using revolving credit card debt, the equivalent interest paid by consumers would amount to over £103 million.

As this consultation notes, it's in areas related to consumer treatment and protection that the BNPL market differs. As outlined in the beginning of our response, Klarna is a fully licensed bank and we already offer regulated products in the UK. This means, unlike the majority of other BNPL providers in the UK, we currently operate our unregulated BNPL products to a regulated standard. Central to this is the protection we offer consumers from the moment they first engage with Klarna right through to the completion of their chosen payment plan - i.e. 'Pay in 3' or 'Pay in 30 days'. We do this by:

- Partnering with retailers to ensure, that our credit products do not appear as a pre-selected payment option at checkout for consumers who have not used BNPL;
- Clearly explaining at a retailer's checkout what all of our products are and how they work in terms of repayments so there is no confusion that our BNPL products are credit;
- Providing the option to 'pay now' as an alternative choice to credit should a consumer want the experience of Klarna without using credit;
- Setting out a transparent overview of our terms and conditions (and with Ts & Cs never more than one click away) so consumers understand what is expected of them after they commit to a transaction;
- Conducting credit checks to utilise external credit data in decisioning on each and every purchase to ensure our lending is responsible and takes into account the credit history and indebtedness of consumers looking to use our payment methods.
- Trialling the use of Open Banking for affordability assessments (on our regulated financing

products) to ensure full and timely visibility of income and expenditure plus use of other BNPL products;

- Presenting purchases and upcoming payment schedules in a clear and accessible way within our app and other channels such as emails and letters.
- Sending reminders of upcoming payments in advance to allow consumers time to manage their money in order to make payment or to defer payment ('snooze') if they need more time;
- Charging zero interest or fees on missed payments and preventing consumers who have missed a payment from using Klarna again until their payments are up to date in order to avoid 'debt spirals';
- Offering 24/7 in-app and a six day a week on-the-phone customer service to support consumers if things go wrong with their purchase or they are having difficulty repaying;
- Giving consumers [Buyer Protection](#)<sup>61</sup> on their purchases so they are protected in the event a retailer fails to fulfil the order - i.e. non-delivery of the goods;
- Treating consumer complaints in the same way as our regulated products. On the rare occasion our internal complaint process proves unsatisfactory, we have also created an internal Complaints Adjudicator as an escalation route to support consumers in finding a resolution in the absence of the Financial Ombudsman Service (FOS) (see further detail on the FOS [here](#)); and
- Providing support and forbearance, such as repayment plans, to consumers that face ongoing difficulty with their outstanding payments. As part of this, we proactively implemented payment holidays for consumers affected by the COVID-19 pandemic in March 2020. This was before the FCA mandated such a response from lenders in June 2020.

As this illustrates, Klarna is setting the standard for the rest of the UK BNPL sector, applying the learnings and capabilities of our regulated credit products. Testament to this are the low levels of complaints - less than 0.05% of transactions (i.e. <5 in every 10,000 transactions) and excellent Trustpilot scores - 4.5/5<sup>62</sup> - we see consistently across our 16 million consumers<sup>63</sup>.

While Klarna operates to these high standards, we accept that not all BNPL providers or products do, despite looking similar within the retailers' checkout, leading to the issues and potential risk factors identified by the [Woolard Review](#)<sup>64</sup>. Highest among these, is the issue of creditworthiness assessments including affordability and visibility of lending between BNPL providers.

As a result of the varied approach the sector has to the assessment of creditworthiness and the current limitations of the CRAs in the UK to receive and report on BNPL credit information, something we detail later in our response, it is not possible for credit providers to see the collective level of use of BNPL products by a consumer across BNPL providers. While this is something the entire industry is committed to resolving, it is an issue which presents a degree of risk as more consumers choose to use these interest-free products compared to high cost credit cards, store cards or overdrafts. We recognise that the way regulatory requirements for creditworthiness and credit information reporting are currently designed means the FCA can have limited impact in mandating a solution. However, we believe the advent of regulation will provide all stakeholders with the impetus to resolve this issue.

#### **Scope of BNPL regulation: short-term- interest-free credit.**

**Question 5:** *Do you agree with our analysis of the business models that underpin the short-term interest-free credit market?*

**Question 6:** *Do you have information to provide the government with a more granular and up-to-date understanding of the use of short-term interest-free credit?*

**Question 7:** *Do you have further analysis or evidence that supports or undermines our understanding that there is limited consumer detriment in the short-term interest-free credit market?*

**Question 8:** Do you have analysis that would support us in identifying which specific elements of the short-term interest-free credit business model serve to protect the consumer from harm?

**Question 9:** Do you agree with the distinction between BNPL and other forms of short-term interest-free credit that has been drawn in this consultation?

**Question 10:** Do you have any comments on our analysis of the drivers of risk for consumers in the BNPL market?

**Question 11:** Do you have any suggestions on how a clear distinction could be drawn between BNPL and short-term interest-free credit?

**Question 12:** Do you have any comments on the option to draw that distinction by restricting the extension of regulation to interest-free credit agreements where there is a third-party lender involved in the transaction? What impact do you think this would have on short-term interest-free credit providers that would be drawn into regulation?

**Question 13:** Do you have any comments on the option to draw that distinction by defining a BNPL agreement as one where there is a pre-existing, overarching relationship between the lender and consumer, under which the lender agrees to finance one or more transactions but where any repayments made are toward specific agreements made as part of that relationship?

**Question 14:** Do you have any views on the need to amend the current exemption for running-account credit, so that it does not allow the unregulated BNPL model to re-emerge?

#### **Summary response:**

- We believe invoicing for service providers, such as tradespeople, should be left unregulated. However, we question the merits of all forms of short-term, interest free (STIF) credit remaining unregulated. These products may appear to consumers very similar to BNPL and could lead to confusion and differing protections for essentially the same credit product. Much like regulated credit, STIF credit can also be detrimental to a consumer's credit profile if they fall into default or arrears so it is important proper protections are in place.

#### **Detailed response:**

The outdated and dysfunctional nature of the CCA presents significant challenges as the credit market and product range in the UK continues to develop - as noted by the [Woolard Review](#)<sup>65</sup> as well as in broader commentary from the [FCA](#)<sup>66</sup> and industry organisations, such as the [Finance and Leasing Association \(FLA\)](#)<sup>67</sup>, nowhere is this more evident in how to define the scope of BNPL regulation.

Here the fundamental point is how can BNPL products be pulled out of the exempt regulatory category (Article 60F(2) of the Regulated Activities Order (RAO) they currently sit within, without inadvertently bringing other, principally non-financial businesses, who rely on unregulated invoicing - i.e. tradespeople providing deferred payment terms of a few days or a couple weeks to their consumers - into the scope of FCA regulation. As suggested in this consultation, bringing such businesses who invoice for their services over short periods of time into the regulatory perimeter would neither be proportionate for the businesses involved, who are often sole trader SMEs, nor would it be necessary for the purposes of consumer protection given the very low levels of risk currently posed by this activity. As a principle, this approach is simple to align on.

We believe a different approach is required for STIF credit, which is primarily offered by retailers - i.e. electrical and furniture stores - who want to provide their consumers with a means of

interest-free instalment payments up to 12 months typically on larger purchases. STIF credit, from the point of view of the consumer, looks and feels very much like the (soon to be regulated) BNPL credit provided by Klarna and other providers. Consumers will become used to and could therefore reasonably expect the same levels of service and protections from this unregulated form of STIF credit as they will from (soon to be regulated) BNPL products, in areas such as affordability checks, section 75 protection and referral of complaints to the FOS. This could result in consumers entering into STIF credit arrangements without fully understanding the product or what rights and protections they may have if something goes wrong following purchase. This inconsistency is not desirable and will ultimately lead to consumer confusion and harm.

Bringing STIF credit into the scope of regulation is the only way to avoid confusion, and achieve a consistent set of consumer protections. We believe this is the fairest approach compared to alternative options, such as defining STIF in regulation depending on which market or product vertical - i.e. retail - it sits within, given that the use of BNPL now extends beyond just one consumer sector. Our BNPL products are currently available in the following sectors:

- Clothing.
- Health & beauty.
- Home & garden.
- Veterinary.
- Electronics.
- Automotive.
- Flights and ticketing.
- Leisure, sport and hobby.
- Jewellery & accessories.
- Entertainment.

For example, the use of STIF credit by veterinary practices is often cited as a reason for why such credit should remain unregulated. However, Klarna already partners with a leading veterinary practice in the UK. Therefore, consumers should be protected regardless if they use one type of veterinary practice who partners with a provider of regulated BNPL or if they happen to use a vet which offers their own unregulated STIF credit offer.

By taking this approach, HMT will also be closing potential regulatory 'loopholes' and prevent STIF credit from being exploited by large physical/ecommerce retailers, who may wish to offer their own short-term, interest-free credit product branded as BNPL without being regulated as a credit lender. If there is limited consumer detriment in certain sub markets, then an outcome based regulatory approach should not create additional burdens.

Attempting to define the regulatory perimeter for STIF credit on the basis of de minimis transaction values or credit lending volumes is another option which, while attractive on paper to mitigate the impact on smaller retailers and service providers, will likely be challenging to administer and police. In this scenario unregulated STIF credit would also need to come with requirements which mandate explicit disclosures that the credit being offered is unregulated and that it does not come with protections such as Section 75 and the FOS. Such an approach risks creating further confusion and complexity for consumers as they would not know whether the STIF credit they have taken out with a retailer falls underneath or above this de minimis level and thus whether the interest free credit option comes with regulated protections or not.

## Regulatory controls for BNPL.

### Credit broking.

**Question 15:** *Do you agree that in any regulatory intervention merchants that offer BNPL as a payment option should not be subject to FCA regulation as credit brokers?*

**Question 16:** *If retailers offering BNPL are exempted from credit broking regulation, do you have any views on other ways to mitigate any potential risks to consumer detriment arising from retailers?*

**Question 17:** *Do you have any views on whether such an exemption from credit broking should extend to all retailers, or whether there should be limited exceptions (such as for domestic premises suppliers)?*

### Summary response:

- We do not believe it is proportionate for retailers offering BNPL to be required to hold a credit broker licence or similar authorisation, given the lower risk nature of these products. We believe this would unfairly impact smaller retailers and those that operate on low margins.
- We welcome HMT's recognition of this and we support proposals that will make providers more accountable for how their retail partners offer BNPL.

### Detailed response:

Following the [Woolard Review](#)<sup>68</sup>, the prospect of FCA credit broker regulation was a key concern for retailers currently offering BNPL to their consumers. Of the 18,000 retailers we work with, only around 9% have a credit broker licence, typically from also offering longer-term regulated credit products such as our Fair Financing payment option or from other providers. The vast majority of the retailers we partner with see Klarna's BNPL product as another credit option at their checkout which sits alongside Mastercard/Visa, American Express or PayPal (i.e. PayPal Credit / Pay in 3). This consultation rightly notes that credit broker regulation would be burdensome to retailers given the high costs, lengthy application processes and need for ongoing FCA reporting and monitoring.

Requiring retailers to be authorised in order to offer BNPL would also disproportionately impact smaller retailers who would not have the resources or experience to obtain/manage such a licence. This is a point well made in [Coadec's](#)<sup>69</sup> recent report on the BNPL sector. While some may argue such retailers could look to secure authorisation as an appointed representative, in our view it is not clear that a viable market of principals exists that would be ready to take on the vast number of smaller retailers offering BNPL. The FCA's recent consultation on "[Improving the Appointed Representatives regime](#)"<sup>70</sup> also brings into question whether this market is currently fit for purpose to take on a swathe of small retailers.

Recent consumer surveys tell us that 7 in 10 consumers have decided not to buy from a store because Klarna was not available at checkout<sup>71</sup>. Larger national and global retailers, who will likely already have such licences or be able to obtain and manage one with greater ease, would therefore have a competitive advantage against their smaller independent rivals.

As well as this, the prospect of licensing as part of regulation presented a significant 'psychological barrier' to retailers, particularly smaller retailers. Surveys we conducted earlier this year with our SME retail partners, which represent over 80% of the 18,000 retailers we work with in the UK, showed that two thirds had reservations and/or were not sure about becoming FCA

authorised<sup>72</sup>. We are therefore fully aligned with HMT that retailers offering BNPL should not be subject to FCA regulation as credit brokers. As this consultation outlines, this is the proportionate approach to take given the inherently low risk of BNPL to consumers. And also in relation to the significant burdens such requirements would place on retailers, particularly smaller retailers and sole-traders which represent the vast majority of the retail community offering BNPL payment options.

While we agree retailers should not be regulated as credit brokers, we recognise that it is still important to put appropriate protections in place to ensure that retailers continue to operate to the highest standards to mitigate any potential risks or consumer harm from offering BNPL. We therefore support proposals that will make providers more formally accountable for how their retail partners offer BNPL.

At Klarna, we see the retail partners we work with as ambassadors for our brand, product and ultimately our relationship with consumers. Our retail partners are also a vital channel for consumer acquisition with 45% of consumers discovering Klarna for the first time through a retailer<sup>73</sup>. As a result, we have strong ethical guidelines that dictate the types of retailers we will and will not work with.

For those 18,000 retail partners, we put in place robust operating standards to ensure they work to a consistent high standard, in line with our own values. These apply regardless of whether they are offering our regulated Fair Financing product or unregulated BNPL products, and starts from the point we onboard a retailer, embedded in our contractual arrangement with them. Once onboarded, our dedicated partner success teams proactively manage and monitor our retailers to ensure they continue operating at the highest standard. As part of this, retailers must work to our comprehensive brand and legal advertising [guidelines](#)<sup>74</sup> (including templates for social media posts, landing page and FAQ copy). These are in addition to the Advertising Standards Agency (ASA) Committee of Advertising Practice (CAP) delayed payment services guidelines retailers are already required to adhere to. We are constantly evolving the guidelines we use to manage our retailers to ensure they receive the best possible support.

Many of the retailers we work with also have their own controls in place, in addition to our guidance and that of ASA/CAP, in order to ensure their advertisement of BNPL is appropriate. For example, [Protein Package](#)<sup>75</sup>, the food supplement retailer, has a 'Klarna' information page with "an easy to understand FAQ about paying with Klarna that highlights the main points of the product and customers can click to access the full terms and conditions." Protein Package note that: "We put this in place to ensure we display Buy Now Pay Later in the best way. Our Klarna account team is also very useful and will guide us if we're unsure about anything." If one of our retail partners fails to meet the standards we expect of them, we take a proactive approach to suspending or terminating the relationship if appropriate action is not taken.

The high standards we demand of our retail partners is the same whether they operate in the online or physical marketplaces. With regard to the retailers we work with who operate within physical retail - i.e. the highstreet - we put in place robust controls, such as our templated, point of sale promotional assets, which conform to existing FCA and ASA / CAP<sup>76</sup> guidelines, to ensure that our BNPL payment options are presented in a responsible way. As a result, we see very few complaints from consumers who used our BNPL products within a physical retail setting. As such, we do not believe it would be proportionate to implement additional regulations for retailers operating within physical retail, such as within a domestic setting.

## Advertising and promotions.

**Question 18:** *Do you think that the current requirements on BNPL retailers and lenders around advertising and promotion are sufficient?*

**Question 19:** *If you think that the requirements need strengthening, would the application of the financial promotions regime be appropriate, or are there any features specific to BNPL products that warrant different requirements?*

### Summary response:

- We believe the current guidelines for how BNPL is presented to consumers, as developed and overseen by the Advertising Standards Agency (ASA) and Committee on Advertising Practice (CAP), provide a robust set of product specific guidelines for the sector.
- However, we recognise that not all BNPL providers are proactively adopting these guidelines and so the application of the FCA's Financial Promotions Regime, with its greater enforcement powers, will help to ensure higher standards and increased consistency across the sector.

### Detailed response:

The ASA and CAP [guidance on delayed payment services](#)<sup>77</sup> (as published in December 2020 and effective from March 2021) already sets high standards for the sector to follow, while remaining principle based and proportionate to the low risk nature of BNPL products. As part of these guidelines, BNPL providers must clearly show the limitations and qualifications attached to products as well as ensure that BNPL is not presented as a 'risk-free' way of obtaining credit.

Given this, we have consistently said that the sector does not need to wait for regulation in order to be clear with consumers and ensure that the marketing and advertising of products is responsible. However, we accept that we ourselves have not always got it right when it comes to our own advertising and promotion. Where issues have arisen, we have been quick to remedy them. For example, following a previous ASA finding in 2020 relating to a small number of our influencer led social media adverts, as noted within this consultation response, we took action and made changes to our practices. This led to the creation of the [Influencer Council](#)<sup>78</sup>, a group of social media advertising experts we convened, and our [Influencer Marketing Whitepaper](#)<sup>79</sup> to provide thought leadership and best practice for the sector in its approach to social media advertising.

In tandem, we also focussed more of our paid marketing spend on initiatives which support financial wellbeing. Within our already low levels of complaints - less than 0.05% of transactions (i.e. <5 in every 10,000 transactions)<sup>80</sup> - we rarely receive a complaint on how we market or promote our products. Despite processing many millions of transactions in the UK using our BNPL products, in the past 12 months less than 100 complaints have been related to this<sup>121</sup>. This is testament to the robust approach we take to ensure we are as clear and transparent as possible with consumers.

The [Woolard Review](#)<sup>81</sup> found that some consumers of BNPL were not aware that such products were credit. As a result, the Review concluded that this posed the risk of consumers entering into BNPL agreements without fully understanding what was expected of them. As outlined in our introduction to this submission, our mission is to help consumers make informed decisions and manage their cash flow. Following these findings and also the ASA and CAP guidance<sup>82</sup>, we extensively reviewed how our BNPL products were being presented at a retailer's checkout and made changes in early 2021 to ensure it was explicitly clear to the consumer that these are credit products, including when repayment is due and the consequences of missed payment. Further to this, we worked with the consumer group, Fairer Finance, to make sure that our terms and conditions are clear, simple and easy to understand. These changes here are already showing

results. A recent online YouGov survey showed that 9 out of 10 respondents (87%) who had used BNPL could correctly identify it as a product that needed to be paid back in full on the basis of the information shown at checkout, showing the progress that has been made over the past year<sup>83</sup>.

We strongly believe that clear and transparent language helps consumers make better choices. However, we are aware not all of the providers in the UK market operate to this high standard. Regulation will help to remedy this and ensure that all providers are clearer with the language they use and disclosures they make, including, for example, the frequency of repayments (weekly, fortnightly or monthly) or any fees associated with missing payments.

As part of this, we see the existing FCA Financial Promotions ('Fin Proms') regime as a proportionate vehicle through which to oversee the standards of BNPL once brought into scope of regulation. Currently too many providers do not proactively adopt ASA and CAP guidelines and instead only react in the event of a complaint. In this regard, the Fin Proms regime, with its additional enforcement powers, should look to carry on the good work of the ASA and CAP by continuing to ensure application of the standards outlined in their existing guidelines<sup>84</sup>.

As part of this, and to ensure the expectations placed on BNPL remain consistent with traditional credit, we would expect the FCA to publish guidance for BNPL so it is clear what the expectations are for the marketing and promotion of these products within the Fin Proms regime.

#### **Pre-contractual information and credit agreements.**

**Question 20:** *Do you agree that the approach to pre-contractual information outlined is consistent with a proportionate approach and the government's objectives for BNPL regulation?*

**Question 21:** *Do you agree with the government's assessment that BNPL agreements are likely to need bespoke form and content requirements?*

**Question 22:** *Do you have any views on what form agreements for BNPL should be required to take, and what content they should contain?*

**Question 23:** *What are your views on applying CCA provisions on improper execution to BNPL agreements? Do you think the consequential sanctions for improper execution should apply to BNPL agreements under any regulatory intervention?*

#### **Summary response:**

- We strongly support the view that the existing prescriptive CCA regulations for pre-contractual information and credit agreements would not be appropriate for BNPL as they are intended for higher risk types of credit which are often used for higher cost, higher value and longer term credit purchases, and also do not reflect how consumers engage with interest free BNPL through digital channels.
- As a result, we favour a distinct, outcomes based approach for BNPL based on existing FCA rules that places a clear expected regulatory outcome on providers relating to transparency of key features and risks, rather than the requirements laid out in a prescribed form with scripted content that exists for higher risk traditional credit.
- This approach, which would include monitoring of benchmark metrics such as trust levels, defaults and complaints, will ensure that appropriate and more consistent information is shown to consumers when determining which is the right payment method for them, while allowing BNPL providers the ability to continuously innovate on the optimal way to display this information so it achieves the best outcomes for consumers.
- The same proportionate approach should also be taken to how consumers can show they have read and understood the information presented to them. As the evidence in our response shows, asking consumers to provide an e-signature or tick a specific box to say

they have understood what they have read does not provide meaningful proof that a consumer has actually engaged with the information.

- Such a process therefore risks adding additional friction compared to using higher cost credit such as credit cards, without achieving better consumer outcomes as a result.

#### **Detailed response:**

It's widely understood that consumers often do not engage with prescribed forms of pre-contractual information and supporting terms and conditions. A recent study by YouGov found that nearly half of consumers never, or rarely read the terms and conditions before committing to a purchase or service<sup>85</sup>. However, the benefits, risks and material terms within this information are crucial to ensuring consumers understand exactly what products and agreements they are considering entering into<sup>92</sup>.

The ineffectiveness of prescriptive regulation is well documented in the world of online privacy. The implementation of the Privacy and Electronic Communications Regulations (PECR) alongside the Data Protection Act and the UK GDPR, which force web users to 'read' a prescribed privacy notice and 'consent' to cookies that track browsing, have been found to be largely meaningless. [Studies](#)<sup>86</sup> show that the majority of these 'cookie notices' are positioned in places on web pages that makes them unlikely to be read and that even if web users did read these notices the overwhelming majority (86%) of websites only allow a user to 'accept' and consent to the use of cookies. This is another example of a well intentioned piece of regulation which has been rendered meaningless due to the prescriptive way it was implemented.

The traditional credit sector is following a similar path and has consistently failed to be transparent and clear with consumers, often relying on overly complicated language and processes when it comes to presenting information. In a recent survey by YouGov, 55% of credit card customers said they only sometimes or rarely checked the terms and conditions for their card<sup>87</sup>. That is why over 6 out of 10 credit card consumers (62%) [YouGov] have no idea what the APR - i.e. the cost of that credit - is on their credit card, despite this being the most fundamental feature of the product<sup>88</sup>. If a consumer did want to understand the APR on their credit card they would likely struggle to locate this within the provider's app, with this information typically hidden within PDF statements and requiring multiple click throughs, unlike the balance and available credit limit which, unsurprisingly, sits front and centre.

We are therefore pleased to see HMT recognise that the current prescriptive and inflexible CCA requirements for pre-contractual information would not be appropriate for BNPL. As we have already outlined, the current ASA and CAP guidelines<sup>89</sup>, which are principle based rather than prescriptive in form and content, already provide product specific guidance for what information should be presented to consumers in marketing and checkout disclosures before they commit to a purchase using BNPL. Testament to this, 9 in 10 respondents (87%) who had used BNPL in a recent survey by YouGov said they recognised it as a product that needed to be paid back in full. While a roughly equal number of respondents (93%)<sup>90</sup> also correctly identified a credit card as a credit product that needed to be repaid in full, not one respondent could accurately calculate how much a balance of £1200 on an interest bearing credit card would cost to repay over a period of three months<sup>91</sup>. This clearly shows consumers of credit cards are not being given enough information to make an informed decision. The credit cost associated with credit card spending can be one of the key contributors to consumer harm so it is vital consumers understand this fundamental point.

The BNPL sector therefore needs a regulatory approach which is more appropriate to the nature of the products. As part of this, the FCA should set a clear regulatory outcome on providers to display the right level of information to consumers while allowing providers the freedom over how that information is displayed. Taking a principles and outcomes based approach to pre-contractual requirements will help ensure that BNPL does not end up with an alternative set of requirements which, while different from those applied to traditional credit, are just as

prescriptive and ineffective.

Taking the lessons from 'cookie notices', we do not see the value in requiring consumers to 'attest' to the fact they have read and understood the information presented to them through a discrete e-signature, additional tick box or otherwise. Similar to an overly prescribed approach for BNPL products, such a requirement would not increase consumer engagement but instead encourage a 'tick-box' culture which does little to protect consumers<sup>93</sup>.

In this regard, it is also important to keep in mind that at a retailer's checkout, BNPL credit is competing with traditional credit cards which can facilitate a payment almost instantaneously where digital wallets allow you to commit to a payment by a swipe, fingerprint or facial recognition scan. As noted by [Coadec](#)<sup>94</sup> in their recent report on the BNPL sector, consumers can therefore commit to purchases with credit cards, which will likely be interest bearing and thus higher risk, with minimal friction. From a consumer journey perspective, this is what BNPL is competing with. While we are committed to presenting our products in the clearest and most transparent way possible, we must balance this with a consumer journey which has appropriate levels of friction in order to ensure BNPL, which is inherently lower risk, continues to be a viable alternative to higher cost and higher risk credit cards.

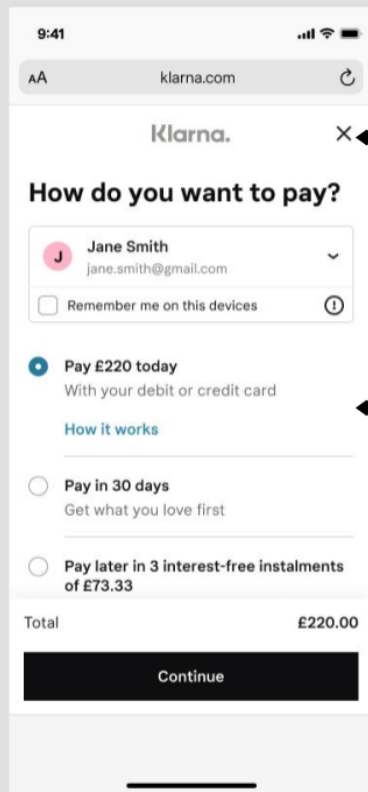
In contrast, to the low levels of consumer understanding among credit cards, our research shows that consumers, both those that have and have not used Klarna products, understand the headline terms and conditions of our BNPL products. Having reviewed the current information we present during the purchase process, 7 out of 10 of respondents to a recent YouGov survey said it was clearer when they needed to repay compared to the information presented by a traditional credit card<sup>95</sup>. Whereas only just over a quarter (26%) of the same respondents said they found it clear to understand when they needed to pay a credit card in order to avoid additional charges having been presented with their key information<sup>96</sup>.

As a responsible lender, we do not want to repeat the mistakes of the traditional credit sector. That is why we place great importance on how key information is presented to consumers during their onboarding and purchase journey. Such information is vital to their overall experience with the product and can often impact the overall outcome they receive from the product itself. During the onboarding process, before a consumer commits to a purchase, we present the following information:

- The total debt to be taken out and the repayment details relating to paying off that debt;
- Eligibility requirements;
- Confirmation that our BNPL products are credit and are interest and fee-free;
- The consequences of not repaying the debt according to the agreement;
- The use of soft credit searches to assess eligibility and the fact these do not impact the consumer's credit score; and
- A visible link to our detailed terms and conditions which contain further information on our use of debt collection in the event of non-payment by a consumer.

The way this information is presented to consumers during the onboarding journey for our BNPL products is illustrated on the following pages:

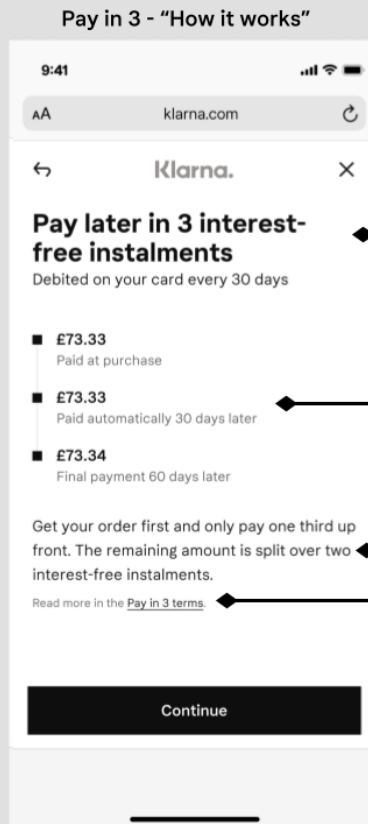
### Payment Method Selection



Cancel button that is always available in each screen. This takes the consumer out of Klarna payments screen.

Payment method choice area - This is where the consumer can choose between the methods of payments he/she prefers. "How it works" takes consumer to a page describing that payment method without assuming progression in flow.

Total amount always displayed to be clear of the fully expected payment due.



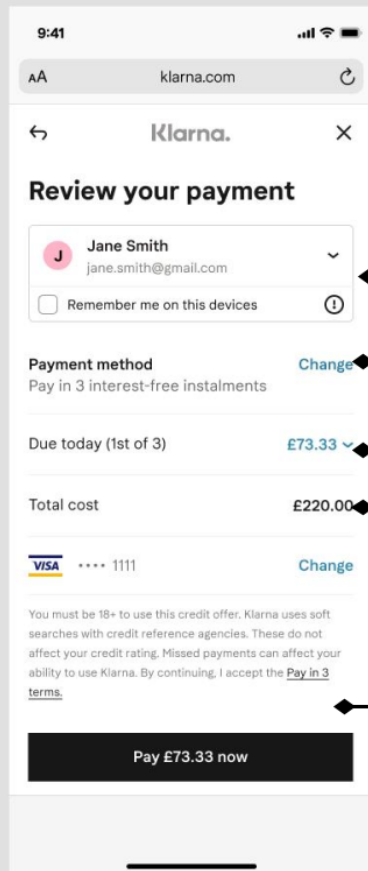
"How it works" screen. Consumer is taken here if they want to learn more about Pay in 3 Payment Method.

Duration of the credit agreement and payment schedule - Clear description of consumer's expected payments upon purchase date and subsequent payments.

Written description of the payment schedule as well as written confirmation of payment method being interest free.

Link to STIP credit agreement terms for further details which have been drafted in plain English and are much clearer than regulated credit agreements.

### Pay in 3 - Review Payment terms



Account/user validation widget - confirms that the correct consumer is logged in.

Option to go back in case this method was not what was expected. This can also be accomplished through the "back" icon top left.

Clear expectation on immediate payment followed with remaining amounts as well as the timing of these. The amount "Due today" will be reserved from the users given funding source immediately but never charged until merchant ships the good.

Total cost of goods and credit to be transparent to consumer of what they will be charged in total. This is also clear that there are no additional fees/costs etc that may be placed on the user.

Making clear BNPL is a form of credit (mention credit offer), consequences of missed payments (missed payments affect ability to use Klarna in the future), we carry out a credit check that will not affect credit score - if regulated we would state that checks may affect credit score (transparency, clear, fair not misleading), 18+ (suitability) and link to T&Cs with comprehensive product information drafted in plain English.

In this regard, the approach we already take to presenting key information should form the basis and standard for the rest of the sector. Our approach is vindicated by the fact that almost 9 out of 10 consumers who have used BNPL services within the last year (87%) say they understand BNPL is a product that must be repaid in full [YouGov]<sup>97</sup>. Our default rates of less than 1% combined with our low complaint levels of less than 0.05% of transactions (i.e. <5 in every 10,000 transactions) also tell us that consumers know what our products are and what is expected of them after purchase<sup>98</sup>. This is a far superior measure of consumer understanding and ‘proper execution’ than the requirements set out in Section 65 of the CCA. Application of the latter would be disproportionate given the inherently low risk BNPL poses to consumers in comparison to traditional, interest-bearing, credit products.

Our view is therefore that HMT should set a framework of principles, within which the FCA can be clear on the outcome they want BNPL providers to meet when presenting key information during the onboarding process, rather than prescribing a standardised bespoke form which consumers need to attest to. For example, the FCA could define a performance-related metric for the number of defaults. If defaults exceed the threshold, then it is clear that the information that provider is displaying during the consumer journey is not clear enough and the FCA can take action. This approach would avoid providers adopting a tick-box approach which, as we already know from the traditional credit sector, would lead to consumer apathy towards the information they are presented with and ultimately poor outcomes.

#### **Creditworthiness assessments.**

**Question 24:** *What are your views on the role of creditworthiness assessments as part of a proportionate approach to BNPL regulation?*

**Question 25:** *Do you have any views on whether there should be specific requirements for creditworthiness assessments for BNPL agreements?*

**Question 26:** *Do you have any views on how BNPL agreements should be reported to consumers’ credit files?*

#### **Summary response:**

- We agree with HMT that requirements for creditworthiness assessments should be put on a level playing field with those already in place for traditional credit to protect consumers from getting into financial difficulties.
- As part of this, we support appropriate affordability assessments in which providers have the ability to take an outcomes based approach to assessing consumers, which can then be proportionate to the lower risk nature of BNPL. This approach, which would include monitoring of benchmark metrics such as defaults and complaints across all BNPL providers, will ensure that consumers are protected from irresponsible lending and aid the prevention of consumers getting into financial difficulty regardless of which credit product or provider they use.
- As part of strengthening creditworthiness assessments for BNPL, we are calling for an acceleration in the development efforts of the Credit Reference Agencies (CRAs) to facilitate more timely and fuller credit information sharing across all credit products, with the credit scoring systems reformed for the short term nature of BNPL products. This reform should happen in parallel to wider adoption of new sources of data facilitated by innovations such as Open Banking and Open Finance.
- This approach will enable consumers to build their credit scores through repayments of BNPL products and also support those consumers with a limited credit history - i.e. ‘thin files’ - in using BNPL as a safer, lower risk and lower cost way to build up their credit profile rather than having to resort to higher cost credit cards, which are marketed as a

way to 'improve your credit score'.

**Detailed response:**

As outlined throughout our response to this consultation, Klarna is fully committed to responsible lending, so ensuring the credit we provide is affordable for the consumer is vital. It is also vital from the point of view of how we make our income. With Klarna, BNPL is a retail-funded model, meaning our income comes from retailers, through a retail service fee charged on each transaction, rather than through consumer charges, such as interest or late fees. We incur any costs or losses associated with consumer missed payments or defaults, and therefore have no incentive to offer credit to a consumer who is unable to pay in full and on time. That is why we have made robust creditworthiness assessments central to our consumer onboarding and purchase journey.

We already lead the way for the rest of the sector by setting the highest standards when it comes to making assessments of consumer creditworthiness. We perform a credit and indebtedness assessment using both our own internal underwriting data and external credit information - i.e. CRA data - for each and every transaction a consumer makes. Our external credit information check takes the form of a 'soft search' which, while giving us the same level of data as a 'hard search', does not leave an imprint on a consumer's credit file. Given the way short-term BNPL credit information is processed among traditional longer term financing credit data, this approach is currently necessary in preserving a consumer's credit file given the historical credit score methodologies have not been updated to reflect the frequency of BNPL purchases appropriately.

The way third party data suppliers, such as CRAs, process and use credit information to 'score' a consumer's creditworthiness, does not work for BNPL credit agreements since they are typically no longer than 60 days. Often a BNPL product can go from initial payment to being fully settled in between a third party data supplier's scheduled reporting periods, which can span from four to eight weeks. This means that consumer creditworthiness data will often not be recorded accurately under the current third party data supplier model.

While we recognise the significant flaws in the current third party data supplier model, we still believe these organisations have a central role to play in the BNPL sector in the near term. That is why we have been working alongside the CRAs in the UK since the publication of the [Woolard Review](#)<sup>99</sup> to support their efforts to innovate and adapt their solutions so that they work more effectively for BNPL. Ultimately, we want to see BNPL credit information accounted for and reported on by the credit bureaus in a way that is similar to the traditional credit sector.

Reforming the way third party data suppliers process credit information is also vital in rewarding consumers who use BNPL responsibly and pay on time. [66%](#)<sup>100</sup> of consumers under 45 say they want their use of BNPL to contribute positively to their credit score. Currently, such scores are reliant on a consumer's payment performance with traditional credit products, such as credit cards.

However, as consumers increasingly turn away from such products - nearly 50% of those aged 25 to 34 no longer hold a credit card [\[Bain\]](#)<sup>101</sup> - a 'good' credit score risks becoming the preserve of a small subset of older consumers who continue to rely on traditional credit. Given the important role a consumer's credit file plays in a financial life cycle, it is important from the perspective of financial inclusion that credit information from BNPL and the way it is treated by the CRAs is on a level playing field with traditional credit. This will support consumers with a limited credit history - i.e. 'thin files' - in using BNPL as a safer and lower risk way to build up their credit profile rather than having to resort to high interest credit cards which are marketed as a way to 'improve your credit score'. Such an approach also supports Chris Woolard's view, as articulated in the [Woolard Review](#)<sup>102</sup> that "a sustainable market needs more alternatives to high cost credit".

Reforming the way third party data suppliers process and report data is also key to ensuring that all credit providers can extend credit responsibly. While our low default rates would suggest this

issue has not led to poor outcomes for consumers, the limited visibility of use of BNPL products may become more problematic as the sector continues to grow and more consumers use BNPL products for their everyday spend.

We are fully committed to responsible lending and do not want to see consumers get into unaffordable debt due to a lack of visibility of use of BNPL products. This is a point well made by the [Woolard Review](#)<sup>103</sup> and we are committed to supporting the sector in finding a solution that works in the best interests of consumers and providers alike.

As part of this, we are also in full alignment with the [Woolard Review](#)'s assessment of the Steering Committee on Reciprocity (SCOR), the industry forum made up of representatives from credit industry trade associations, credit industry bodies and credit bureaus with responsibility for the administration and development of data sharing rules known as the Principles of Reciprocity<sup>104</sup>. Recommendation 15 of the [Woolard Review](#)<sup>105</sup> concludes that SCOR is not fit for purpose in today's credit market.

We recognise that the operation of SCOR has not kept pace with developments in the credit sector. As noted by [Coadec](#)<sup>105</sup> in their recent paper on the BNPL sector, the current lack of diversity within SCOR also makes the organisation feel like a 'backroom' operator whose representation is dominated by incumbent institutions. The lack of transparency and oversight over SCOR's operation or decision-making is a concern and risks hampering reform of the credit information market in the interests of consumers. Ultimately, we want to see SCOR reformed so that it's membership more accurately represents today's credit market. As part of this, discussions that take place within SCOR should be more transparent to the whole sector, with all relevant stakeholders given the ability to feed into conversation and decision-making. We trust such reform will be a key ambition for the FCA in both its subsequent consultation to this one, as well as its ongoing Credit Information Market Study.

While we are supportive of the role of third party data suppliers in the BNPL sector, albeit in a reformed manner, we do not believe it is proportionate to mandate their use by all providers. Such an approach would significantly 'gold-plate' existing requirements for traditional credit products and potentially create barriers to entry and future innovation in areas such as eligibility assessments enabled by Open Banking.

The FCA's requirements on the creditworthiness assessments, as outlined in [Section 5.2 of the Consumer Credit sourcebook \(CONC\) within the FCA Handbook](#)<sup>106</sup>, are already outcomes-focussed in that they require lenders to "undertake a reasonable assessment of the creditworthiness", rather than prescribing how this should be done. As outlined, we strongly support outcomes-focussed regulation. As such, BNPL providers, much like traditional credit providers, should have the latitude to utilise whatever information sources are needed to ensure responsible lending. On the other side of such freedoms, strong sanctions should be put in place for providers who fail to lend responsibly.

We are already seeing some providers adopt new technologies, such as Open Banking, in order to enhance lending decisions. At Klarna, we see Open Banking as a complement rather than replacement of traditional credit information. In October 2021, we introduced such technology into our underwriting process for our longer term financing products.

## **Arrears, defaults, forbearance and complaints.**

*Note: questions 27, 28, 29 and 32 have been grouped given their commonality under this theme.*

**Question 27:** *Do you have any views about how customers in financial difficulty should be treated under BNPL agreements?*

**Question 28:** *What are your views on the proportionality of applying CCA provisions on arrears and defaults to BNPL agreements?*

**Question 29:** *Do you agree that under any regulatory intervention for BNPL, section 75 of the CCA should apply to agreements?*

**Question 32:** *Do you agree that under a regulatory intervention for BNPL, consumers should be able to bring a complaint to the FOS?*

*Forbearance and financial difficulty.*

### **Summary response:**

- We agree with HMT that regulation for consumers in financial difficulty should be aligned to consumer outcomes regardless of the lending product and sector. Therefore we are supportive that the FCA's current requirements should apply to BNPL.

### **Detailed response:**

Klarna operates to the highest standard on forbearance and the fair treatment of consumers in financial difficulty, with a tailored approach to consumers in vulnerable positions. As a regulated credit provider, we already apply the standards and requirements on forbearance within CONC 7 of the FCA's Handbook to our BNPL products<sup>107</sup>. Our approach to financial difficulty and forbearance is therefore one of the key differentiators between Klarna and other providers of BNPL in the UK. We operate to the highest standard because we:

- Notify consumers of upcoming payments before they are taken;
- Have in-app and website guidance to encourage consumers to proactively contact us ahead of due date if they are facing financial difficulties;
- Do not charge late fees for missed payments and we make this clear to consumers through their onboarding journey;
- Offer consumers who are struggling to pay forbearance measures such as payment plans and payment holidays;
- Only pass overdue and unpaid debts over to our vetted and quality assured collection agencies as a last resort. All of the collection agencies we work with in the UK are regulated and authorised by the FCA and act in the best interests of consumers as an extension of our own efforts to collect payment. Consumers who are passed onto an agency face no additional costs. The agencies we work with are also contractually prevented from taking any legal action against a consumer; and
- Do not undertake any debt collection activity whilst a consumer is on a forbearance agreement and blocked from further lending at Klarna. Consumers identified as 'long-term vulnerable' are also excluded from any external debt collection agency activity.

We recognise that not all providers have such robust measures in place to protect consumers experiencing difficulty because they do not have experience of providing regulated credit products in the UK. We welcome the attention brought to this issue by the [Woolard Review](#)<sup>108</sup> and agree that the FCA should seek to apply the standards and requirements on forbearance, as

outlined in CONC 7.3 of the FCA Handbook<sup>109</sup>, to BNPL. This will ensure a consistent standard exists which will protect consumers regardless of which BNPL provider they use. As part of this, the FCA should be clear on the outcomes they want consumers in difficulty to receive and give providers the latitude to meet those outcomes with a choice of measures, such as those outlined in CONC 7.3.5 of the FCA Handbook<sup>110</sup>. We therefore agree with recommendation 23 of the [Woolard Review](#)<sup>111</sup> and believe the FCA should conduct policy work to review its overall approach to forbearance with a view to putting it on a more outcomes-based footing.

*Arrears.*

#### **Summary response:**

- We strongly agree that there need to be rules in place to protect consumers if they default on payments and fall into arrears.
- However, we support the views of trade bodies such as UK Finance, Innovate Finance and the Finance and Leasing Association (FLA), that the current prescriptive regulations to communicate with consumers in arrears, as outlined in the CCA, are inflexible and outdated for all types of credit, and thus are no longer effective and do not provide the best outcomes for consumers.
- Many of the communications, which are prescribed in content and form, are either irrelevant to how BNPL works in practice and/or disproportionate given these products are short-term and interest-free.
- HMT should therefore mandate providers to comply with existing FCA rules on arrears and exclude these CCA regulations from the incoming regime for BNPL.
- In applying these rules, the FCA should set a clear regulatory outcome for providers based on performance metrics, such as the monitoring of default levels and complaints, to ensure the sector is pursuing good outcomes for consumers.
- As the regulation for BNPL develops in the future and as CCA reform moves higher up the policy agenda, we want to see a greater emphasis on requirements to support consumers before they miss a payment - i.e. upcoming payment reminders. These measures help mitigate arrears in the first place and provide much better consumer outcomes.

#### **Detailed response:**

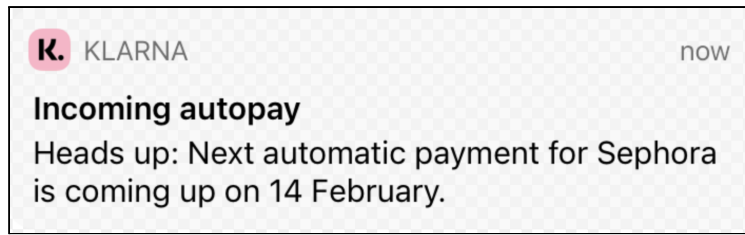
As a regulated credit provider, we already comply with CCA requirements in relation to notifications of arrears on our regulated longer-term financing products. While we are fully aligned with the principle such requirements are trying to achieve, we do not see them as the best way to achieve good outcomes for consumers in financial difficulty. The prescriptive nature incentivises providers to comply with tick-box requirements that give consumers a false sense of protection. [Professor Lauren E. Willis' research on 'Performance-Based Consumer Law'](#)<sup>112</sup> provides a number of examples. As Willis' research shows, this issue is not confined to financial services and exists across a number of consumer facing sectors. Instead, we find that pre-payment reminders and providing consumers the tools to prevent missed payments in the first place are much more effective.

We take this approach to our BNPL products and send friendly reminders to consumers ahead of payment due dates.

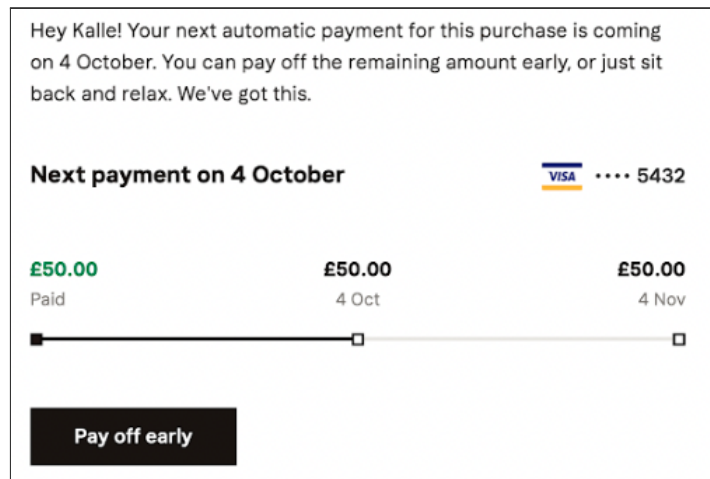
#### **SMS reminder 2 days before payment due date.**

Heads up! Your next automatic Klarna payment for Sephora is coming on 14 February. Please check that your card ending in 4455 has sufficient funds. Easily manage your order in the app or log into [app.klarna.com](https://app.klarna.com)

**Klarna app push notification reminder 2 days before payment due date.**



**Klarna email notification reminder 2 days before payment due date.**



Such notifications give consumers the time and space to consider whether they will be able to make that upcoming payment and take action if they cannot. This proactive approach contributes to our low default rates of <1% which is 30-40%<sup>113</sup> lower than for the default rate for traditional credit cards.

In our view, Section 86B, C & E ('Notice of sums in arrears under fixed-sum credit agreements etc'), 87 ('Need for default notice') and 88 ('Contents and effect of default notice') are irrelevant to how BNPL works in practice and disproportionate given these products are short-term and interest-free.

We do not believe the current regulated approach, as outlined by the CCA, fits with the nature of BNPL. HMT should therefore carve these regulations out of the incoming regime for BNPL and instead mandate providers to comply with existing FCA rules on arrears.

In the longer-term and in line with broader calls for reform from organisations such as the Finance and Leasing Association (FLA)<sup>114</sup>, we would welcome further consideration from HMT on how these requirements can be reformed so that greater emphasis is placed on supporting consumers ahead of payment, rather than merely notifying consumers when they have missed a payment. We recognise that many debt charities consider a consumer's utility and rent payments as much of a creditor-debtor agreement as regulated credit. This approach to pre-payment notifications can therefore be applied to a wide set of products and services in order to better support consumers and mitigate arrears in the first place.

## Section 75.

### Summary response:

- We agree with HMT that Section 75 protections should apply to BNPL purchases over £100 and under £30,000.

### Detailed response:

As a regulated credit provider, we already provide Section 75 protections to consumers of our longer-term Fair Financing product. We see Section 75 as a valuable protection that gives consumers the necessary protections, particularly when shopping online with an unfamiliar retailer.

Given their (currently) unregulated nature, we have been unable to extend Section 75 protections to consumers using our BNPL products. Instead, we created our own post-purchase protection, '[Buyer Protection](#)'<sup>115</sup>, which mirrors the protections of Section 75. This means consumers of our BNPL products can raise a dispute about the retailer they purchased from with Klarna in much the same way as consumers of traditional credit do with their credit card company. In such instances, Klarna investigates and assesses the claim impartially. If it is evident that the retailer has not delivered the good or service as expected, we will uphold the consumer's claim. Klarna will refund the consumer the disputed funds or in some circumstances ask the retailer to provide a repair or a replacement. Where the claim is not upheld, we will explain the reasons why to the consumer in writing.

Based on consumer feedback and continuously low complaint levels about our dispute policies - under 1% of all complaints - it's clear our Buyer Protection has worked well for many consumers. However, we recognise this protection acts as a transitional measure in lieu of regulation<sup>116</sup>. We also recognise that not all providers have such robust post-purchase protections in place. We therefore welcome the consistency the application of Section 75 will bring to the sector.

*Financial Ombudsman Service (FOS).*

### Summary response:

- We agree with HMT that BNPL should fall under the jurisdiction of the FOS.
- We support the views of trade bodies, such as Innovate Finance, that the substantial gap between the FOS case fee (£750) and the average purchase value of BNPL (£50-£100) risks creating inappropriate incentives for consumers and firms alike, resulting in complaints being settled ahead of reaching the FOS. We would welcome further engagement on this with HMT, the FCA and the FOS.

### Detailed response:

As a regulated credit provider, our Fair Financing products already fall within the scope of the FOS. We see the FOS as the best route for independent adjudication when a provider's own complaint procedures are deemed unsatisfactory. That is why we attempted to bring our (currently) unregulated BNPL into the FOS' jurisdiction on a voluntary basis back in 2020. However, this was unfortunately not possible at the time from a FOS perspective. As a result, we created our own internal complaints adjudication procedure, the 'Complaints Adjudicator', to mirror the FOS and give consumers of our unregulated BNPL products who found themselves dissatisfied by our complaints procedure an appropriate route of escalation.

The Complaints Adjudicator has been up and running since February 2021 and in that time has helped to provide a valuable check on our internal complaints procedure. The Complaints Adjudicator has received 116 complaints since inception. It has overturned, either fully or partially,

approximately 50% of the complaints it has investigated and assessed. This tells us that the process is working well for consumers. If the Complaints Adjudicator overturned too many decisions taken by our internal complaints team, this would suggest our initial complaint procedure was ineffective. Conversely, if the Adjudicator was upholding a high number of complaint decisions then this would suggest that the Adjudicator was not acting in an impartial manner. We established this Complaints Adjudicator in lieu of regulatory intervention by HMT and see it as a bridge to the FOS. However, as this consultation highlights, we accept our own internal Complaints Adjudicator will never be as truly independent as the FOS. We also recognise that not all providers have established such robust post-purchase protections should customers face difficulties.

While we support the fundamental intentions of the FOS and believe they are the best route, currently available, for consumers to escalate complaints, we remain deeply concerned about the case fees levied by the FOS as well as their ability to deal with an even broader remit given the current backlogs for cases related to their current remit, as noted by the [Treasury Select Committee](#)<sup>117</sup> in January 2021.

Given the relatively small amounts of credit offered through BNPL, as noted by the consultation, averaging between £65-£75, a case fee of £750 is entirely disproportionate. We make this argument not because we are concerned by the financial burden presented by such a fee but rather because the size of this fee relative to the amount of BNPL offered will likely result in poor outcomes for consumers and firms alike. As outlined by [Coadec](#)<sup>118</sup> in their recent paper on the sector, there is a risk that the threat of a FOS referral is encouraged as a way for consumers to secure a refund from a BNPL provider, even if unwarranted. HMT should also be alive to the fact that these negative behaviours will likely encourage unscrupulous activity by claims management companies who will be looking to galvanise high volumes of complaints in order to generate fees.

We recognise that this fee is currently applied equally to all financial firms, regardless of product type, and we appreciate we are not the first provider to raise concerns about fee levels. For example, we are aware of similar concerns raised by the [FLA](#)<sup>119</sup> in January 2021. We therefore welcome the recognition the FOS' recent '[action plan for changing and improving](#)'<sup>120</sup>, published 2 December, gives to fees. We believe this review provides a good platform from which to consider reform, and we would welcome further engagement with HMT, the FCA and the FOS on this issue.

#### **Application of the CCA for small agreements.**

**Question 30:** *What are your views on amending the scope of the exemptions from elements of the CCA for small agreements to include BNPL agreements under £50.*

**Question 31:** *Are you aware of any currently-regulated consumer credit products, in particular those which are debtor-creditor-supplier agreements, that are routinely offered with values less than £50?*

#### **Summary response:**

- We agree with HMT that BNPL agreements under £50 should be covered by regulation.

#### **Detailed response:**

As outlined throughout our response to this consultation, we are the standard bearer for the BNPL sector. As such, we are committed to robust consumer protections on all of our BNPL transactions, regardless of monetary value. Therefore, we would not endorse a two-tier regime, whereby transactions under £50 remain unregulated but those exceeding £50 are. Such an approach would not be in the best interests of consumers who would have little clarity over which of their BNPL transactions were considered as regulated and which were not. For firms,

this approach would also be challenging to administer and would likely lead to unscrupulous behaviours from a small number of bad actors who would use this in order to avoid the full weight of regulation. We therefore fully support amendments to the small agreements exemption within the CCA to ensure that BNPL agreements under £50 are captured in the same way agreements over £50 will already be captured by what is proposed within this consultation.

**Equality impact.**

**Question 33:** *What impacts do you expect the regulation of BNPL would have on BNPL providers, consumers that use the product, and merchants that offer it as a payment option?*

**Question 34:** *What impacts would you expect to see on persons with the protected characteristics mentioned above as a result of regulation of BNPL?*

**Question 35:** *Do you have any views on how the government can mitigate any disproportionate impacts on protected characteristics?*

- All our BNPL products are designed with the consumer's best interests at their core and they provide access to a lower risk and more sustainable form of credit.
- The proportionate approach taken by this consultation should mitigate the risk that future regulation of BNPL adversely affects consumers with protected characteristics.
- However, the Government needs to keep in mind that any additional friction added to the consumer journey as a result of regulation could create challenges for some consumers with protected characteristics. This risk is particularly acute in areas related to pre-contractual information in which the presentation of too much prescribed information could make BNPL products inaccessible for some.

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*YouGov Plc. Total sample size was 2010 adults. Fieldwork was undertaken between 9th - 10th December 2021. The survey was carried out online. The figures have been weighed and are representative of all GB adults (aged 18+).*

<sup>91</sup> *Calculated independently by Klarna on the basis of information from YouGov (2021) 'Survey on consumer understanding of BNPL and pre-contractual information'. YouGov. (Unpublished)*

<sup>26</sup> *[Net Promoter Score](#), (NPS) measures the loyalty of customers to a company. NPS scores are measured with a single question survey and reported with a number from -100 to +100. A higher score is desirable.*

<sup>59</sup> *[Persistent debt is where](#), over a period of 18 months, you've paid more in interest and charges than you've repaid of the amount borrowed.*

<sup>60</sup> *[Net Promoter Score](#), a metric used in customer experience programmes. NPS measures the loyalty of customers to a company. NPS scores are measured with a single question survey and reported with a number from -100 to +100. A higher score is desirable.*