
BUY NOW, PAY LATER: CAN INDIA REGULATE WITHOUT KILLING THE BUZZ?

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ABSTRACT

As global regulators tighten their grip on Buy Now Pay Later (BNPL) —Australia introducing a Code of Practice, and the U.K.'s FCA proposing stricter rules, India is following suit. In March 2024, the Reserve Bank of India reinforced its crackdown on digital lending, mandating stricter compliance for BNPL providers. As fin-tech firms scramble to restructure their models, the question remains: Can India strike the right balance between consumer protection and financial innovation?

With India joining the global wave of BNPL regulations, the stakes are high for both consumers and fin-tech players. As the RBI tightens its grip on digital lending, this blog unpacks why regulators are stepping in, how fin-techs are adapting, and whether India can craft a framework that ensures both responsible lending and continued innovation.

INTRODUCTION

The Buy Now Pay Later (BNPL) is a loan offered to a customer at the point of sale so they can purchase items on credit but without a credit card. It divides the purchase into four or six instalments at checkout. The first instalment is usually due at checkout, paid as a down payment. In contrast, the others are due in two-week intervals. If a borrower fails to deposit these instalments, BNPL lenders tend to charge late fees.

The global BNPL market is projected to grow at a 13.7% annual rate, reaching USD 560.1 billion in 2025. From 2021-2024, it achieved a 21.7% CAGR and is expected to continue

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growing at 10.2% CAGR, reaching USD 911.8 billion by 2030.² These statistics depict the growth of BNPL as against the traditional money lending systems and its rise as a mainstream credit alternative across global markets. The popular use of BNPL systems have raised concerns about consumer protection, potential frauds, non-repayment of debts which leads to potential for debt traps, systematic risk and misleading marketing. These concerns raise the need for regulations and intervention of various regulating agencies in this sector. It is with this objective that various countries have introduced laws regulating BNPL systems including, Australia's BNPL Code of Practice, U.K.'s FCA proposals, U.S. CFPB inquiry.



Figure 1: Global BNPL Market (The figures are predictive and may differ)

The BNPL market follows similar path with a projected 13.4% annual growth to USD 21.95 billion in 2025. With a 22.3% CAGR from 2021-2024, it is expected to reach USD 35.07 billion by 2030.³ This creates a strong need for robust regulations, despite RBI guidelines, India lacks dedicated legislations for BNPL. India is among the top five countries in terms of BNPL users. BNPL share in e-commerce was about 3 per cent in India in 2023 as compared to 5 per cent globally.⁴

² FinTech Futures <https://www.fintechfutures.com/press-releases/buy-now-pay-later-global-business-report-2025-bnpl-payments-to-grow-by-13-7-to-surpass-560-billion-this-year-driven-by-klarna-afterpay-paypal-and-affirm-forecast-to-2030> (last visited Apr. 1, 2025).

³ FinTech Futures <https://www.fintechfutures.com/press-releases/india-buy-now-pay-later-business-report-2025-2030-key-players-and-new-entrants-regulatory-oversight-consumer-protection-entry-of-diverse-bnpl-providers-rapid-adoption-across-demographics> (last visited Apr. 1, 2025).

⁴ Reserve Bank of India, <https://m.rbi.org.in/scripts/PublicationsView.aspx?Id=22461> (last visited Apr. 1 2025).



Figure 2: Indian BNPL Market (The figures are predictive and may differ)

The Fin-tech Perspective: Why BNPL Is a Game-Changer for Financial Inclusion

BNPL as opposed to traditional credit systems provides the service for payments in instalments without any minimum qualification for credit score, it is in this sense that BNPL promotes financial inclusion as the young, salaried and self-employed as well as the informally employed population of the country has access to institutionalized formal credit. Thus, by reducing barriers and qualifications to access credit it has promoted financial inclusion. The introduction and increased usage of BNPL services also accrue profits to the merchants and sellers as consumers are induced to purchase more due to the fact that, they have to only pay a nominal amount at checkout and then pay in equated easy instalments.

THE NEED TO REGULATE BNPL MARKETS IN INDIA

The explosive growth of the Buy Now, Pay Later (BNPL) segment in India has brought to light several pressing concerns that underline the need for regulatory intervention. Targeted largely at millennials, Gen Z consumers, and first-time borrowers, BNPL services offer instant credit with minimal documentation. However, this ease of access often comes without proper credit assessments or visibility into borrowers' existing liabilities. As a result, users can take on multiple loans from various BNPL providers, leading to a phenomenon known as "stacked credit"—a key contributor to rising delinquencies and financial stress.

Moreover, BNPL agreements frequently lack transparency. Many consumers are unaware of the exact repayment terms, hidden charges, late fees, or penalties involved which accrues to more profits to the BNPL companies. This can result in ballooning debt and a negative impact

on credit scores.⁵ The absence of standardized disclosures, combined with aggressive marketing and weak consumer protection frameworks, further amplifies the risk—especially for financially uneducated or vulnerable users.

In the absence of clear regulations, BNPL providers have operated in a grey area, often outside the purview of India's traditional lending ecosystem. This raises concerns not just about consumer welfare, but also about data privacy, financial stability, and the integrity of digital lending practices in the broader FinTech landscape.

THE INDIAN REGULATORY LANDSCAPE: A TIGHTROPE WALK BETWEEN COMPLIANCE AND GROWTH

The Ease of Doing Business (EoDB) is indicated by evolving regulations, digital innovation, and the growing demand for alternative credit solutions. The recent expansion of the BNPL market suggests the high rate of EoDB and high market flexibility in India. Despite lack of legislation, the BNPL companies are required to adhere to guidelines of RBI which treats BNPL as a credit product and requires similar due diligence and credit appraisal standards as for other loans⁶. The [RBI 2022 Digital Lending Guidelines](#) are applicable to BNPL companies as NBFC's which mandates the flow of loan amount directly from the bank to the borrower without going through any third party account. It additionally mandates lenders to provide consumers with Key Facts Statement (KYS) to keep them updated for their loan accounts and that any fees or charges levied shall be paid by the regulated entities and not by the borrower⁷.

The BNPL companies are also required to adhere to [2023 RBI Guidelines for Default Loan Guarantee \(DLG\)](#) through which the RBI imposed a cap of 5% on FLDG arrangements, limiting the extent to which fin-tech companies can guarantee losses of their lending partners⁸. This measure aims to mitigate risk in digital lending.

⁵ *Exploring the Pitfalls of BNPL in India*, KUVIRA (Feb. 23, 2024), <https://kuvera.in/blog/exploring-the-pitfalls-of-bnpl-in-india/>

⁶ *Report on Trend and Progress of Banking in India 2022-23*, RESERVE BANK OF INDIA (2023), <https://m.rbi.org.in/scripts/PublicationsView.aspx?Id=22461> (last visited Apr. 1, 2025).

⁷ *Guidelines on Digital Lending*, RESERVE BANK OF INDIA (Sept. 2, 2022), <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/GUIDELINESDIGITALLENDINGD5C35A71D8124A0E92AEB940A7D25BB3.PDF> (last visited Apr. 2, 2025).

⁸ *DLG in Digital Lending*, RESERVE BANK OF INDIA (June 8, 2023), <https://fdciindia.org.in/wp-content/uploads/2023/06/RBI-DLG-IN-DIGITAL-LENDING-08-06-23.pdf> (last visited Apr. 2, 2025).

Despite all the support provided to BNPL companies they face regulatory challenges as RBI through [Master Directions on Prepaid Payment Instruments \(PPIs\)](#) restricted their participation as pre-paid payment instruments (PPI) which mandates them to partner with RBI registered entities such as banks and NBFC's and align their policies with the traditional lending systems⁹. This shift has forced FinTech firms to rethink their credit assessment models, enhance transparency in fee structures, and introduce stricter risk management frameworks help provide traditional lenders with access to new customer segments, creating a hybrid credit ecosystem that merges innovation with regulatory safeguards.

Regulatory Sandboxes: A Middle Ground for BNPL Innovation

As per [RBI's Regulatory Sandboxes \(RS\) notification](#) refers to live testing of new products or services in a controlled/test regulatory environment for which regulators may (or may not) permit certain regulatory relaxations for the limited purpose of the testing¹⁰. For BNPL companies in India, this sandbox acts not just as a testing ground, but as a structured legal framework that encourages responsible innovation. It enables these companies to trial new credit models, customer engagement tools, or risk management systems under the supervision of regulators, without being fully bound by standard regulations at the outset. Participation is limited to entities, including banks and FinTech firms, that meet the RBI's "fit and proper" criteria. The standard testing period is nine months; extendable upon application submitted a month before the end date. Ultimately, it strikes a balance between encouraging innovation and maintaining oversight—something that's crucial in a rapidly evolving FinTech space like BNPL.

THE REGULATION VS. INNOVATION SCORECARD: COMPARING INDIA WITH GLOBAL BNPL MARKETS

The regulatory approach to BNPL varies significantly across countries, reflecting different stages of market maturity and policy priorities. In India, the Reserve Bank of India (RBI) has not introduced a standalone BNPL law but regulates the sector through broader digital lending guidelines, treating BNPL as a credit product. These include mandatory credit checks, direct

⁹ Shanthi S., *How One RBI Notification Shattered Hopes of India's FinTech Ecosystem*, INC42 (June 22, 2022), [https://inc42.com/features/how-one-rbi-notification-shattered-hopes-of-indias-fintech-ecosystem/#:~:text=The%20notification%20was%20addressed%20to,Association%20of%20India%20\(DLAI\)](https://inc42.com/features/how-one-rbi-notification-shattered-hopes-of-indias-fintech-ecosystem/#:~:text=The%20notification%20was%20addressed%20to,Association%20of%20India%20(DLAI)) (last visited Apr. 2, 2025).

¹⁰ *Enabling Framework for Regulatory Sandbox*, RESERVE BANK OF INDIA (Feb. 28, 2024), <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1262> (last visited Apr. 3, 2025).

fund disbursement, and transparency via Key Fact Statements. In contrast, the UK is in the process of bringing BNPL under the purview of the Financial Conduct Authority (FCA), with proposed rules focusing on affordability checks, advertising standards, and consumer protection.¹¹ Meanwhile, Australia has taken a decisive step by proposing to regulate BNPL under existing credit laws, with the Australian Securities and Investments Commission (ASIC) leading efforts to ensure responsible lending and borrower safeguards¹². India can draw on these global examples to further shape its regulatory landscape while offering its own model of innovation through mechanisms like the RBI's Regulatory Sandbox.

WHAT'S NEXT? THE FUTURE OF BNPL REGULATION AND INNOVATION IN INDIA AND BEYOND

To ensure the sustainable growth of the BNPL sector in India, future policy efforts should focus on creating a clear and dedicated regulatory framework that recognizes BNPL as a distinct financial product. A tiered, risk-based approach can help balance innovation with compliance, allowing smaller players room to grow while ensuring larger firms follow stricter norms. Standardized and transparent disclosure of fees, interest rates, and repayment terms will be key to protecting consumers. Integrating BNPL activity with credit bureaus can help borrowers build credit histories and prevent over-indebtedness. Strengthening customer protection through clear grievance mechanisms and borrower education will further build trust in the system. Additionally, expanding the Regulatory Sandbox can offer more room for safe innovation, while clear partnership norms between BNPL providers and regulated entities like banks and NBFCs can enhance accountability. Together, these measures can support a responsible, innovative, and inclusive credit ecosystem in India.

Countries like the UK and Australia have led the way in tightening BNPL regulation. The UK's Financial Conduct Authority (FCA) is working on stricter rules around affordability checks and transparent advertising, while Australia is bringing BNPL under its credit laws, aiming to regulate it like any other form of credit. India can draw from these examples to design

¹¹ *Regulation of Buy-Now, Pay-Later: Consultation on Draft Legislation*, U.K. GOVERNMENT (Oct. 2024), https://assets.publishing.service.gov.uk/media/6710efdb8a62ffa8df77b28c/Regulation_of_BNPL_consultation_2024_-_final_17.10.pdf (last visited Apr. 7, 2025).

¹² *Government Introduces Consumer Protections for Buy Now Pay Later*, AUSTRALIAN GOVERNMENT (June 5, 2024), <https://ministers.treasury.gov.au/ministers/stephen-jones-2022/media-releases/government-introduces-consumer-protections-buy-now-pay> (last visited Apr. 7, 2025).

consumer-centric policies that prioritize affordability checks, prevent hidden fees, and impose caps on late payment charges.

India's Regulatory Sandbox approach, launched by the RBI, offers a balanced way to foster innovation while maintaining supervision. This model can serve as a blueprint for other countries looking to nurture FinTech innovation responsibly. Additionally, India's emphasis on direct fund disbursement to borrowers (bypassing third-party wallets) and mandatory Key Facts Statements (KFS) are strong consumer protection measures that other markets can adopt to improve transparency.

CONCLUSION

In conclusion, the BNPL landscape in India stands at a pivotal point—driven by rising consumer demand, digital innovation, and evolving regulatory responses. While the RBI has taken commendable steps through guidelines and the Regulatory Sandbox, a more tailored and forward-looking framework is now essential to address the unique dynamics of BNPL. By learning from global practices and reinforcing consumer protection, transparency, and responsible lending, India can nurture a robust and inclusive BNPL ecosystem. As the sector matures, the key lies in balancing innovation with regulation to ensure long-term stability and financial well-being for consumers across the country.
