
THE RISE OF BUY NOW PAY LATER (BNPL) MODELS IN INDIA: ADDRESSING CONSUMER PROTECTION CHALLENGES IN THE DIGITAL CREDIT ECOSYSTEM

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ABSTRACT

Buy Now Pay Later (BNPL) has emerged as one of the most transformative innovations in the fintech sector, offering consumers short-term credit at the point of purchase both online and offline. In India, the BNPL segment has grown exponentially over the past few years, fuelled by increasing smartphone penetration, the rapid expansion of e-commerce platforms, and a surge in digital payment adoption following the COVID-19 pandemic. BNPL has positioned itself as an accessible and flexible alternative to credit cards, particularly among young, first-time borrowers who lack traditional credit histories. While it promotes financial inclusion and enhances consumer spending capacity, this unregulated credit boom has also triggered concerns surrounding consumer protection and systemic stability.

The absence of a specific regulatory framework has allowed diverse business models ranging from fintech startups to e-commerce giants to operate under minimal oversight. This has resulted in several challenges, including inadequate credit assessments, lack of standardized disclosures, hidden fees, over-indebtedness, misuse of personal and transactional data, and limited access to effective grievance redress mechanisms. Although the Reserve Bank of India (RBI) introduced the Digital Lending Guidelines, 2022, to ensure greater transparency and accountability, ambiguities remain regarding their application to BNPL intermediaries and partnerships between regulated and unregulated entities.

This paper examines the evolution of BNPL in India and analyzes the adequacy of existing legal and regulatory safeguards from a consumer protection perspective. It evaluates gaps within the current framework and compares India's approach with regulatory developments in other jurisdictions such as the United Kingdom and Australia, where authorities are moving towards bringing BNPL fully within credit regulation. The study ultimately proposes a balanced regulatory roadmap for India that strengthens

consumer protection through clear disclosures, proportionate risk assessments, enhanced data privacy measures, and standardized redressal mechanisms, while maintaining an environment conducive to fintech innovation and inclusive digital credit growth.

Keywords: Buy Now Pay Later (BNPL), digital lending, consumer protection, Reserve Bank of India (RBI), fintech regulation, UPI, digital credit, financial inclusion, e-commerce, digital payments, credit risk, data privacy, financial technology, regulatory framework, RBI Digital Lending Guidelines, consumer rights, grievance redressal, credit transparency, responsible lending, digital finance ecosystem, online credit models, comparative regulation, financial literacy.

1. Introduction

The Buy Now Pay Later (BNPL) model a short-term, interest-free or low-interest credit solution that allows consumers to split purchases into installments at the point of sale has rapidly transformed India's digital payments and retail-credit landscape. Fuelled by rising ecommerce adoption, smartphone penetration, and partnerships between fintech's, marketplaces and NBFCs, BNPL services have become a mainstream payment option for a wide range of consumers and merchants. Market analysts estimate that the BNPL sector in India expanded substantially during 2021–2024 and is projected to remain a high-growth segment of the digital-credit market in the near term¹.

Despite the clear consumer convenience and commercial benefits, the swift growth of BNPL has outpaced the evolution of a tailored regulatory framework in India. Questions around the regulatory status of BNPL providers, the applicability of digital-lending norms, and licensing or payments-system authorisations have repeatedly drawn attention from policymakers and the central bank. In response, Indian regulators notably the Reserve Bank of India have consolidated and clarified expectations for digital lending and payments intermediaries in recent policy pronouncements and draft frameworks, signalling an intent to bring BNPL and adjacent fintech credit within more explicit supervisory boundaries².

Concurrently, persistent consumer-protection concerns have surfaced: unclear or

¹ 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, GlobeNewswire (Feb. 14, 2025),

² Reserve Bank of India (RBI), Guidelines on Digital Lending (Circular DOR.CRE.REC.66/21.07.001/2022-23, Sept. 2, 2022).

nonstandardised disclosure of fees and repayment terms, opaque underwriting and credit-scoring practices, aggressive or non-transparent recovery methods, data-privacy vulnerabilities, and the potential for over-indebtedness among financially inexperienced users. These problems are compounded when lending occurs through complex partnerships (platforms, lenders, and payment service providers), blurring accountability and redress pathways for consumers. Such harms have prompted legislative and administrative responses, including proposals to criminalise or penalise illegal or unregulated lending activity and to establish clearer enforcement mechanisms.

Methodology and Scope

This study adopts a doctrinal and policy-oriented research methodology. It primarily relies on qualitative legal analysis to examine the evolving regulatory treatment of Buy Now Pay Later (BNPL) models in India and their implications for consumer protection. The research draws upon multiple categories of sources to ensure a holistic and credible evaluation:

1. **Primary regulatory materials:** including the Reserve Bank of India's Guidelines on Digital Lending (2022), related FAQs, circulars, consultation papers, and public statements by the RBI and the Ministry of Finance. These instruments form the legal foundation of India's digital credit governance framework.
2. **Secondary materials and industry studies:** such as market reports, white papers, and data insights from fintech associations, research firms, and payment-industry bodies that document BNPL growth trends, user demographics, and operational models.
3. **Academic literature and comparative regulatory reports:** drawing on research and consultation papers from the European Union, United Kingdom, Australia, and Singapore to identify international best practices for regulating BNPL and digital credit ecosystems.
4. **Legal-policy commentaries and practitioner analyses:** including publications by Indian law firms, think tanks, and consumer-rights organizations that interpret regulatory developments and highlight potential gaps in enforcement and consumer safeguards.

The paper's scope is confined to BNPL products and services offered to Indian retail consumers, particularly those transacted through digital platforms and mobile applications. The focus is on consumer protection dimensions, including disclosure and transparency requirements, affordability and responsible lending, redressal mechanisms, data-privacy compliance, and hidden fees or charges.

The study adopts a comparative analytical lens to understand how other jurisdictions have responded to similar challenges and what lessons can be adapted to India's regulatory ecosystem. While primarily qualitative, the paper also references available quantitative data on BNPL adoption rates and consumer behaviour where relevant to illustrate trends or support policy analysis.

BNPL in India: Business Model and Market Dynamics

BNPL in India functions as a short-term digital credit mechanism that allows consumers to make immediate purchases and defer payments through structured instalments, generally spanning three to six weeks or months³. These offerings are primarily facilitated by fintech startups, banks, and strategic partnerships between merchants and lenders, operating at the intersection of payments and credit. Revenue for BNPL providers typically arises from merchant discount fees, late or processing charges, and in certain cases, interest on extended repayment durations. Although often advertised as "interest-free," hidden costs may surface in the form of missed payment penalties, processing fees, or high roll-over charges, which can cumulatively raise the effective cost of borrowing.

The Indian BNPL market has witnessed exponential growth in recent years, underpinned by rapid digitalisation, a thriving e-commerce ecosystem, and increasing consumer appetite for instant, paperless credit. Market research by IMARC Group (2024) and Research & Markets (2025) values the Indian BNPL sector in the low-to-mid tens of billions (USD), with sustained annual growth projections exceeding 20% through the next decade⁴. This impressive expansion highlights BNPL's role as a cornerstone of India's evolving digital credit ecosystem, bridging the gap between consumption aspirations and short-term liquidity constraints.

³ Reserve Bank of India, Guidelines on Digital Lending (Sept. 2, 2022), available at <https://www.rbi.org.in/commonperson/english/scripts/FAQs.aspx?Id=3413>

⁴ IMARC Group, India Buy Now Pay Later Market: Industry Trends, Share, Size, Growth, Opportunity and Forecast 2024–2032 (2024).

Several structural and behavioural drivers underpin this growth trajectory. India's low credit card penetration only around 5–6% of the population holds a credit card creates a vast untapped segment that BNPL effectively serves. The frictionless digital experience, characterised by one-click checkout, real-time credit approval, and simplified repayment interfaces, attracts a growing base of tech-savvy users. Moreover, younger consumers, particularly millennials and Gen Z, perceive BNPL as a convenient, low-commitment alternative to traditional credit products. Strategic collaborations between e-commerce platforms, digital payment gateways, and fintech lenders have also played a pivotal role in expanding reach, leveraging transaction data to improve underwriting and consumer targeting.

However, while BNPL has undoubtedly democratized access to short-term credit and boosted retail consumption, it has simultaneously raised critical regulatory and consumer protection concerns. The ease of access, minimal credit checks, and fragmented reporting to credit bureaus increase the risk of over-indebtedness and financial stress, especially among first-time borrowers. Additionally, opaque fee structures, inconsistent disclosure practices, and the use of consumer behavioural data for algorithmic credit scoring raise questions about transparency, data privacy, and ethical lending. These emerging challenges underline the need for a robust, context-specific regulatory framework that balances innovation with accountability in India's digital credit ecosystem.

Regulatory and Policy Landscape in India

India's regulatory framework governing Buy Now Pay Later (BNPL) models primarily evolves within the broader context of digital lending and payments regulation, led by the Reserve Bank of India (RBI) and supported by the National Payments Corporation of India (NPCI). The RBI's Digital Lending Guidelines, introduced in September 2022 and followed by detailed FAQs and clarifications, form the cornerstone of this framework. These guidelines place accountability squarely on regulated entities (REs) such as banks and Non-Banking Financial Companies (NBFCs) for loan origination, credit assessment, and compliance obligations, even when fintech platforms or third-party service providers facilitate the transactions. The guidelines prohibit routing loan disbursements or repayments through unregulated third-party wallets, thereby ensuring that all funds flow directly between the borrower and the lender's regulated accounts.

They also mandate the provision of a Key Fact Statement (KFS) outlining all fees, charges, and repayment terms to borrowers, and require digital lenders to establish transparent grievance

redress mechanisms, consent-based data collection processes, and robust data protection protocols. Collectively, these measures aim to curb predatory lending, improve borrower awareness, and enhance overall market transparency.

Complementing RBI's oversight, the NPCI has introduced innovations such as the Credit Line on UPI, which allows regulated lenders to offer instant digital credit linked to Unified Payments Interface (UPI) accounts⁵. These initiatives are reshaping India's payments landscape by creating seamless integration between digital credit products and everyday payment systems. However, as NPCI's infrastructure increasingly enables instant credit transactions, regulatory questions arise regarding the delineation of responsibilities among banks, fintech intermediaries, and non-bank BNPL providers. The potential overlap between payments facilitation and credit intermediation poses a challenge for regulators seeking to ensure consumer protection without stifling innovation.

In addition to the RBI and NPCI frameworks, broader consumer protection and data privacy regimes influence BNPL operations⁶. The Consumer Protection Act, 2019, Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011, and forthcoming Digital Personal Data Protection Act, 2023, collectively impose obligations related to transparency, consent, and accountability. However, in the absence of a BNPL specific statute, regulators currently rely on general lending, data protection, and payment system rules that may not adequately address BNPL's unique characteristics such as its short-tenor, point-of-sale nature, and hybrid role between payments and credit. This regulatory gap underscores the need for a more tailored policy framework that balances innovation, market development, and consumer protection within India's rapidly expanding digital credit ecosystem.

Consumer Protection Challenges and Regulatory Gaps

This section identifies concrete gaps that can leave BNPL consumers exposed.

The Buy Now, Pay Later (BNPL) ecosystem in India, while fostering financial inclusion and

⁵ National Payments Corporation of India, UPI Credit Line Circular (Sept. 4, 2023), <https://www.npci.org.in/what-we-do/upi/product-overview>

⁶ The Consumer Protection Act, 2019, No. 35, Acts of Parliament, 2019 (India); Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011, Gazette of India, Extraordinary, Part II, Sec. 3(i); The Digital Personal Data Protection Act, 2023, No. 22, Acts of Parliament, 2023 (India).

digital credit accessibility, faces significant consumer protection challenges. One of the foremost concerns relates to affordability and credit-worthiness checks, as many BNPL providers approve credit through instant digital onboarding processes with limited or no assessment of a borrower's repayment capacity. This raises the risk of over-indebtedness, particularly when consumers maintain multiple BNPL accounts across different platforms. Although the Reserve Bank of India (RBI)'s Digital Lending Guidelines (2022) mandate that regulated entities (banks and NBFCs) remain responsible for ensuring proper credit assessments, the enforcement of these provisions for ultra-short-tenure BNPL loans remains uncertain and inconsistently applied.

Equally important are transparency and disclosure standards. BNPL schemes are often promoted as "interest-free," but many hide the true cost of credit through delayed payment penalties, processing charges, or rollover fees. The RBI's requirement for a Key Fact Statement (KFS) is an attempt to introduce uniform disclosure practices, yet in practice, variation in how such information is presented particularly at the merchant interface can still obscure the total cost for consumers.

Another challenge lies in data privacy and algorithmic credit decision-making. BNPL platforms frequently depend on non-traditional data such as consumer behaviour, mobile device identifiers, or transaction patterns to assess eligibility. However, India currently lacks a fully operationalized Personal Data Protection Law (PDPL), leaving BNPL users vulnerable to opaque data collection, profiling, and potential misuse of personal information. This gap underscores the need for explicit privacy and consent safeguards within the fintech regulatory framework.

Further, the sector's reliance on third-party intermediaries such as payment facilitators, merchant partners, and technology vendors creates ambiguity in accountability. In such multiparty arrangements, consumers may face difficulties identifying who is responsible for compliance, refunds, or grievance redressal. The RBI attempts to assign liability to the regulated entity at the top of the chain, but in practice, coordination between lenders and technology providers remains an unresolved operational issue.⁷

⁷ AMLEGALS, Buy Now Pay Later (BNPL) – Legal and Regulatory Framework in India, AMLEGALS BLOG (2023), <https://amlegals.com>

The lack of standardized redressal and dispute resolution mechanisms adds to consumer vulnerability. BNPL disputes often involve overlapping issues merchant-related product grievances intertwined with credit-related disputes making resolution complex. While India's financial consumer grievance systems are evolving, they still lag behind international models where financial ombudsmen provide streamlined complaint resolution.

Finally, anti-money laundering (AML) and fraud risks persist due to the high-velocity, low-value nature of BNPL transactions, which can be exploited for layering or fraudulent activities. Despite ongoing efforts to integrate BNPL services into formal regulatory frameworks with Know Your Customer (KYC) protocols, compliance remains inconsistent across non-bank intermediaries, exposing the system to residual risks.⁸

Overall, these gaps spanning credit assessment, transparency, data privacy, third-party accountability, redressal, and AML compliance underscore the urgent need for a comprehensive BNPL-specific regulatory regime that balances innovation with consumer protection in India's fast-evolving digital credit ecosystem.

Comparative Lessons from Other Jurisdictions

Examining how other countries regulate Buy Now, Pay Later (BNPL) systems provides valuable insight into possible approaches for India as it works to strengthen consumer protection and regulatory oversight. Both the United Kingdom and Australia have taken proactive steps to close regulatory gaps, moving BNPL from a loosely governed fintech product toward inclusion within formal consumer credit frameworks. These international experiences highlight how well-designed oversight can balance innovation, accessibility, and consumer safety lessons that hold important implications for India's rapidly expanding BNPL market.

United Kingdom (Financial Conduct Authority FCA)

The United Kingdom offers one of the most structured and transparent approaches to Buy Now Pay Later (BNPL) regulation globally. Initially, BNPL products were considered low-risk and thus exempted from the *Consumer Credit Act 1974*, allowing providers to operate without stringent credit assessments or disclosure mandates. However, rapid market expansion, coupled with rising consumer indebtedness and complaints over hidden fees, prompted the Financial

⁸ M2P Fintech, BNPL and Digital Lending Risks: Regulatory Insights (2023), <https://m2pfintech.com/insights>

Conduct Authority (FCA) to intervene⁹. Following the *Woolard Review* (2021), which recommended a more robust regulatory framework, the FCA initiated reforms between 2023 and 2025 to bring BNPL within its supervisory perimeter.¹⁰

Under the proposed regulatory model, BNPL providers must perform mandatory affordability and creditworthiness assessments before extending deferred payment facilities. These requirements ensure that consumers are not over-extended or subjected to exploitative repayment conditions. Additionally, standardized pre-contractual disclosures are mandated to inform borrowers about the total cost of credit, late fees, and default consequences in clear and comprehensible language. The FCA also integrated BNPL under the Financial Ombudsman Service (FOS), providing consumers with an independent and accessible dispute-resolution mechanism.¹¹

The UK's approach underscores a vital regulatory principle functional parity, meaning that all forms of consumer credit, regardless of delivery model, must meet equivalent standards of transparency, fairness, and accountability. This integration not only enhances consumer trust and financial literacy but also compels fintech lenders to align their business models with established prudential norms. The FCA's ongoing consultations also explore proportional oversight, balancing innovation with consumer welfare by preventing overregulation of small-value, low-risk BNPL transactions while maintaining consistent standards of consumer protection.

Australia (Australian Securities and Investments Commission ASIC and Treasury)

Australia was among the first jurisdictions to proactively examine the risks associated with BNPL models. Initially governed by voluntary codes under the *Australian Finance Industry Association (AFIA)*, the sector witnessed exponential growth between 2018 and 2023, with millions of consumers using BNPL services and rising instances of missed repayments and credit distress. In response, the Australian Securities and Investments Commission (ASIC) conducted a landmark *BNPL Industry Review (Report No. 672, 2022)*, which found that one in

⁹ Fin. Conduct Auth., *The Woolard Review: A Review of Change and Innovation in the Unsecured Credit Market* (Feb. 2021).

¹⁰ Fin. Conduct Auth., *Consultation Paper: Buy-Now Pay-Later Regulation under the Consumer Credit Act (CP23/8, 2023)*.

¹¹ Fin. Ombudsman Serv., *About Us: Role and Jurisdiction of the FOS* (2024), <https://www.financialombudsman.org.uk/>

five BNPL users missed payments and that the absence of affordability checks led to consumer harm.¹²

Based on ASIC's findings, the Australian Treasury initiated public consultations culminating in the extension of the National Consumer Credit Protection Act 2009 (NCCP Act) and the National Credit Code to cover BNPL arrangements meeting specified thresholds. This reform, effective mid-2025, transitions BNPL from self-regulation to statutory compliance, introducing licensing obligations, responsible lending requirements, and ASIC oversight. The new framework also enforces cost transparency and standardized disclosure obligations, compelling providers to clearly outline fees, penalties, and repayment structures.

Notably, Australia's hybrid approach combining flexible innovation sandboxes with enforceable consumer safeguards offers a model of graduated regulation, wherein the level of compliance scales with the size and risk of BNPL transactions. This ensures that both startups and established players adhere to responsible lending principles while maintaining market dynamism. The availability of formal complaint and redress mechanisms, coupled with increased regulatory visibility, has significantly improved accountability across the Australian BNPL ecosystem.¹³

Relevance for India

India's rapidly expanding BNPL sector can draw valuable lessons from these international experiences. The UK's and Australia's frameworks both demonstrate that treating BNPL as a regulated credit product rather than a mere payment innovation ensures greater consumer protection and systemic stability¹⁴. Parity in regulation prevents regulatory arbitrage, where fintech firms exploit the absence of clear credit classification to bypass lending norms that apply to banks and non-banking financial companies (NBFCs).

Additionally, mandatory affordability checks as seen in both jurisdictions help curb overborrowing and ensure sustainable credit access. India could adapt this by requiring light-touch affordability assessments for low-value transactions and more robust credit evaluations for repeated or high-ticket BNPL use, possibly integrating this data into credit bureaus.

¹² Austl. Sec. & Invs. Comm'n, Buy Now Pay Later: An Industry Review, Report No. 672 (Nov. 2022).

¹³ Nat'l Consumer Credit Prot. Act 2009 (Cth) (Austl.); Nat'l Credit Code sch. 1.

¹⁴ Reserve Bank of India, Guidelines on Digital Lending (Sept. 2022).

Likewise, standardized disclosures modelled after the FCA's templates can ensure that consumers understand the total cost of BNPL credit at checkout.

Moreover, India's regulatory ecosystem could benefit from the introduction of a dedicated financial ombudsman mechanism for digital lending, ensuring that disputes between consumers, merchants, and fintech providers are resolved efficiently. A clear legal framework defining accountability among fintech intermediaries, regulated entities, and merchants similar to the ASIC model would prevent confusion regarding liability for defaults or data breaches.

Lastly, as India's digital credit ecosystem increasingly integrates with the Unified Payments Interface (UPI), regulators must ensure that BNPL products offered through such platforms comply with existing RBI Digital Lending Guidelines and consumer protection laws. By adopting a calibrated, risk-based framework, India can preserve innovation while embedding global best practices in affordability, transparency, and grievance redressal¹⁴.

Policy Recommendations (Elaborated in Paragraph Form)

To build a balanced and sustainable regulatory framework for Buy Now, Pay Later (BNPL) in India, policymakers must focus on enhancing consumer protection while maintaining space for innovation. Drawing on comparative insights from the United Kingdom and Australia, the following key policy recommendations are proposed.

Clarify BNPL Definition and Regulatory Responsibilities

The first step in creating a robust BNPL regulatory framework is to clearly define what constitutes a BNPL product and assign specific regulatory responsibilities among the entities involved. At present, the Indian market operates in a legal grey zone where BNPL is neither fully recognized as a loan nor entirely classified as a payment service. This ambiguity has allowed fintech's to operate without uniform oversight, leading to inconsistent consumer protections.

To address this, the Reserve Bank of India (RBI) should issue a comprehensive definition distinguishing short-term BNPL transactions which typically involve repayment within 30 to 60 days from longer-tenor instalment credit that functions more like traditional consumer loans.

¹⁴ Austl. Treasury, BNPL Regulatory Framework: Policy Paper (2024).

Once classified, these products can be regulated under appropriate frameworks. Moreover, responsibilities should be explicitly allocated among participating entities: banks and nonbanking financial companies (NBFCs) must remain responsible for credit risk and compliance; fintech intermediaries should adhere to RBI's Digital Lending Guidelines; and merchants must ensure that BNPL terms and costs are transparently displayed at checkout. Such a structure would eliminate regulatory loopholes, strengthen accountability, and ensure that consumer protection duties are clearly enforceable.

Standardize and Strengthen Consumer Disclosures

Transparency is the foundation of consumer trust, yet BNPL providers in India often promote their services as "interest-free" while obscuring hidden costs, late fees, and penalties. To remedy this, the RBI should mandate a standardized disclosure framework through a Key Fact Statement (KFS) specifically tailored for BNPL products. This statement should be displayed at the point of sale and in digital loan documentation, presenting all essential information in a simple and uniform format. The KFS should clearly outline the total amount payable, repayment schedule, applicable late payment charges, interest (if any), and contact details for complaints or grievances. By ensuring disclosures are consistent across all providers, consumers can more easily compare terms and make informed decisions. Such standardization will also prevent deceptive marketing practices and promote transparency at both the merchant and provider interfaces, aligning BNPL operations with the principles of fair lending and consumer awareness seen in other financial sectors.

Implement Proportionate Affordability and Creditworthiness Checks

While BNPL is intended to simplify short-term credit access, unregulated and rapid approval mechanisms risk pushing consumers into over-indebtedness. Many users, especially younger or credit-inexperienced individuals, may hold multiple BNPL accounts across platforms, leading to fragmented and unmonitored liabilities. To mitigate these risks, regulators should require BNPL providers to conduct affordability and creditworthiness assessments proportional to the loan's value and frequency. For low-value, short-tenor transactions, automated credit checks using behavioural or repayment data may suffice, ensuring convenience and minimal friction. However, for high-value or repeated BNPL usage, providers must perform more rigorous evaluations of income and repayment capacity. Additionally, all BNPL accounts and repayment histories should be reported to credit bureaus, enabling a consolidated view of a

borrower's exposure and preventing hidden debt accumulation. This proportionate system balances financial inclusion with consumer responsibility, reducing the likelihood of default and protecting consumers from unsustainable borrowing patterns¹⁵.

Strengthen Grievance Redress and Dispute Resolution Mechanisms

Given that BNPL involves multiple entities fintech platforms, partner banks or NBFCs, and merchant's disputes can arise over repayments, product returns, or service deficiencies. Currently, many BNPL users face uncertainty about whom to approach for complaint resolution. To ensure accountability and consumer confidence, the RBI's Integrated Ombudsman Scheme (2021) should be explicitly extended to cover BNPL transactions. This would grant consumers access to an independent, fair, and cost-free redress mechanism for grievances involving lenders or intermediaries. Furthermore, the framework should require each BNPL provider to establish a dedicated grievance cell with specified service-level agreements (SLAs) to ensure prompt resolution. Clear distinction must also be made between merchant-related disputes such as product quality and credit-related issues like delayed payments or incorrect charges. By creating well-defined dispute channels, India can mirror successful international models such as the UK's Financial Ombudsman Service¹⁶ (FOS), ensuring consumer trust and regulatory accountability.

Enhance Consumer Awareness and Financial Literacy

Lastly, strengthening consumer understanding of BNPL is vital to prevent misuse and promote responsible borrowing. Many users perceive BNPL as a free or riskless payment option without realizing that missed payments can incur penalties or affect their credit score. The RBI, in collaboration with fintech associations and consumer welfare organizations, should launch targeted awareness campaigns to educate users about the true cost and implications of BNPL credit.

These initiatives should explain how BNPL functions, what charges apply upon late payment, and how maintaining timely repayments can improve financial health. Integrating financial literacy modules within digital lending and UPI platforms could also help consumers make

¹⁵ Financial Conduct Authority (U.K.), The Woolard Review: A Review of Change and Innovation in the Unsecured Credit Market (Feb. 2021), <https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>

¹⁶ Financial Ombudsman Service (U.K.), Annual Report and Accounts 2023/24 (July 2024), <https://www.financial-ombudsman.org.uk>

informed decisions at the point of borrowing. A financially aware consumer base will not only reduce delinquency rates but also support the development of a trustworthy and sustainable digital credit ecosystem.¹⁷

Regulatory and Legal Challenges

Absence of a BNPL-Specific Law

One of the primary regulatory challenges surrounding Buy Now Pay Later (BNPL) services in India is the absence of a dedicated legal framework. At present, BNPL is not explicitly defined under any Indian statute, which makes it difficult to determine its exact legal nature whether it should be treated as a loan, a payment service, or a hybrid product. In the absence of a clear definition, BNPL operations fall within a regulatory grey area, leading to uncertainty for both regulators and market participants. Currently, the BNPL ecosystem is governed only partially by existing regulations such as the RBI Digital Lending Guidelines (2022), the Consumer Protection Act, 2019, and the Information Technology Rules, 2011. While these laws address certain aspects like digital lending conduct, consumer rights, and data protection, they do not provide comprehensive oversight of BNPL-specific risks such as deferred payment mechanisms, hidden charges, or multi-party contractual arrangements. As a result, regulatory authorities face significant challenges in monitoring compliance, ensuring consumer protection, and enforcing accountability among fintech firms and lending partners.

This legal vacuum highlights the urgent need for a BNPL-specific regulatory framework that clearly defines the nature of BNPL transactions, establishes uniform compliance obligations, and sets out consumer safeguards to ensure transparency and fairness in the digital credit market.¹⁸

Definitional Ambiguity

A key regulatory challenge in governing Buy Now Pay Later (BNPL) services in India is the lack of clear legal definitions distinguishing different types of financial activities. At present, there is no precise distinction between payment facilitation, such as transactions made through

¹⁷ Reserve Bank of India, Financial Literacy and Inclusion: RBI Initiatives (Apr. 2023), <https://rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=1220>

¹⁸ Consumer Protection Act, 2019, No. 35, Acts of Parliament, 2019 (India); Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021, Gazette of India, Feb. 25, 2021.

UPI or digital wallets, and credit intermediation, which involves extending short-term credit to consumers. This ambiguity creates confusion about whether BNPL providers are merely payment facilitators or are functioning as lenders.

Poorly defined legal categories open the door to regulatory arbitrage, where fintech companies may structure their operations in a way that helps them bypass stricter lending regulations applicable to Non-Banking Financial Companies (NBFCs). This not only leads to inconsistent regulatory treatment across players but also weakens consumer safeguards. Moreover, the lack of clarity affects whether BNPL firms should be classified and licensed as NBFCs or as intermediaries, leading to uncertainty in compliance obligations and supervisory oversight. Therefore, establishing precise legal definitions is essential to ensure consistent regulation, accountability, and protection within the BNPL ecosystem.¹⁹

Overlapping Jurisdictions and Fragmented Oversight

The regulation of Buy Now Pay Later (BNPL) services in India is complicated by the involvement of multiple regulatory authorities, each overseeing different aspects of the financial ecosystem²⁰. The Reserve Bank of India (RBI) regulates credit and lending activities, the National Payments Corporation of India (NPCI) manages payment systems, the Securities and Exchange Board of India (SEBI) oversees capital market-related aspects, while the Ministry of Electronics and Information Technology (MeitY) and the Ministry of Finance handle data protection and overall policy formulation. However, this division of responsibilities often results in regulatory overlap and inconsistent supervision, as each authority applies its own standards and priorities. The absence of a central coordinating body leads to fragmented enforcement, with gaps in monitoring consumer protection, data privacy, and digital lending practices. Consequently, the regulatory response to emerging risks in the BNPL sector is often slow and uncoordinated, making it difficult to ensure uniform compliance across all players. A harmonized regulatory framework or inter-agency coordination mechanism is therefore essential to ensure effective, consistent, and timely governance of the BNPL industry.

¹⁹ Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps, Reserve Bank of India (Nov. 2021), available at <https://rbi.org.in>

²⁰ Reserve Bank of India, Payment and Settlement Systems Act, 2007; Securities and Exchange Board of India Act, 1992; Information Technology Act, 2000.

Data Privacy and Cybersecurity Concerns

Data privacy and cybersecurity represent major concerns in the regulation of Buy Now Pay Later (BNPL) services. BNPL platforms and fintech companies heavily rely on personal, financial, and behavioural data to assess creditworthiness and customize offers. However, in many cases, there are no explicit legal safeguards governing how this sensitive data is collected, processed, or shared among partner entities such as NBFCs, merchants, and payment intermediaries. This lack of robust data protection measures exposes consumers to serious risks, including data breaches, identity theft, unauthorized profiling, and algorithmic bias in credit decision-making. The issue is further compounded by the fact that current BNPL operations are not fully aligned with the provisions of the Digital Personal Data Protection Act, 2023, which emphasizes consent-based processing and accountability in data handling. Inadequate cybersecurity infrastructure and weak data governance frameworks make the ecosystem vulnerable to misuse. Therefore, stronger data protection protocols, compliance audits, and cybersecurity standards are essential to ensure that BNPL operations safeguard user privacy and maintain consumer trust.²¹

Conclusion

The rapid emergence of Buy Now Pay Later (BNPL) models in India represents both a transformative opportunity and a regulatory challenge within the country's digital credit landscape. BNPL has democratized access to short-term credit, fostered financial inclusion, and empowered new-to-credit consumers by bridging gaps in traditional lending. However, its unregulated expansion has simultaneously exposed significant vulnerabilities related to consumer protection, data privacy, and systemic accountability. The absence of a BNPL specific legal framework, coupled with definitional ambiguity and fragmented oversight among regulatory authorities, has allowed inconsistencies and compliance gaps to persist.

While the Reserve Bank of India's Digital Lending Guidelines (2022) mark an important step toward improving transparency and accountability, their partial applicability to BNPL highlights the need for a dedicated, well-defined regulatory architecture. Lessons from international jurisdictions such as the United Kingdom and Australia demonstrate that

²¹ NITI Aayog, *Responsible AI for All: Approach Document for India* (2021); Reserve Bank of India, *Cybersecurity Framework for NBFCs* (June 2017).

proportionate regulation anchored in affordability checks, standardized disclosures, and accessible grievance redressal can effectively balance innovation with consumer welfare.

Moving forward, India's regulatory approach must aim to integrate clarity, coordination, and consumer-centricity. Establishing precise definitions, harmonizing oversight among financial and data regulators, enforcing uniform licensing norms, and embedding data privacy safeguards are essential measures. Moreover, enhancing financial literacy and consumer awareness will be pivotal to ensuring responsible usage and sustained trust in digital credit solutions.

In essence, a BNPL-specific legal and regulatory framework grounded in transparency, fairness, and technological resilience can enable India to realize the full potential of fintech innovation while safeguarding consumers in an increasingly digital economy. Such a balanced model would not only reinforce financial stability but also position India as a global leader in responsible digital credit governance.