



Consumer protection in the age of fintech convergence: Lessons from buy now pay later regulation

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Abstract

The rapid convergence of finance and technology has redefined the global financial ecosystem, giving rise to innovative credit models such as Buy Now, Pay Later (BNPL). While BNPL enhances financial inclusion and consumer convenience, it simultaneously introduces complex risks relating to transparency, data protection, and over-indebtedness. This paper examines the legal and regulatory implications of BNPL within the broader context of fintech convergence, focusing on Nigeria's evolving financial landscape. It analyses the roles of key actors—lenders, platforms, merchants, and consumers and evaluates Nigeria's existing consumer protection and fintech regulatory frameworks. The study underscores the urgent need for Nigeria to adopt a harmonized, technology-sensitive approach that balances innovation with robust consumer safeguards. The paper concludes by recommending comprehensive reforms to address regulatory gaps and strengthen consumer trust in digital finance.

Keywords: Fintech Convergence, consumer protection, buy now pay later (BNPL), financial inclusion

Introduction

Twenty-first century has witnessed a rapid evolution of financial technology (fintech) that is reshaping the global financial landscape. Fintech convergence refers to the integration of financial services with advanced digital technologies such as artificial intelligence (AI), big data analytics, blockchain, cloud computing, and the Internet of Things (IoT) to create new financial products, services, and delivery channels. Convergence blurs traditional boundaries between banks, technology firms, and consumers, resulting in an ecosystem that is both innovative and complex. According to the International Monetary Fund, fintech convergence has accelerated financial inclusion, enhanced efficiency, and driven competition in both developed and developing economies.

Moreover, convergence has also introduced novel risks to consumer protection, data privacy, and market integrity. As digital platforms increasingly mediate financial transactions, consumers are often exposed to opaque algorithms, non-traditional credit assessments, and unregulated lending models. One notable manifestation of this trend is the "Buy Now, Pay Later" (BNPL) product, which allows consumers to defer payments without undergoing conventional credit checks. The model, initially popularized by firms such as Klarna, Afterpay, and Affirm, has rapidly expanded beyond Europe and North America into emerging markets including Nigeria. This expansion underscores the interplay between technology innovation and consumer vulnerability, particularly in jurisdictions with limited regulatory oversight. This paper is divided into six parts. The first part is the Introduction, which provides the background, context, and significance of the study within the framework of fintech convergence and consumer protection. The second part discusses the Concept of Fintech Convergence, explaining its evolution, key components, and implications for global and Nigerian financial systems. The third part examines the Nature and Operational Model of Buy Now, Pay Later (BNPL), highlighting its emergence as a digital credit tool

and its impact on consumers and merchants. The fourth part analyses the Key Actors in the BNPL Ecosystem, focusing on the roles and interactions of lenders, platforms, merchants, and consumers. The fifth part explores the Legal and Regulatory Framework for Fintech and BNPL in Nigeria, assessing existing laws and identifying regulatory gaps. The final part provides the Conclusion and Recommendations, summarizing key findings and proposing policy reforms to strengthen consumer protection in the age of fintech convergence.

Concept of Fintech Convergence

Fintech convergence refers to the fusion of financial services with emerging digital technologies to create innovative, data-driven financial products and platforms. It encompasses the integration of artificial intelligence (AI), blockchain, big data, cloud computing, and machine learning into traditional banking and payment systems. This convergence has transformed how individuals and institutions access, manage, and transfer money by bridging the gap between technology companies and conventional financial institutions. According to the International Monetary Fund, fintech convergence has accelerated financial inclusion, improved efficiency, and broadened access to credit globally (IMF, Fintech and Financial Inclusion, 2021).

The phenomenon represents a major paradigm shift from the traditional bank-centric model to a more decentralized, technology-driven ecosystem. It enables services such as digital lending, mobile payments, cryptocurrency transactions, and Buy Now, Pay Later (BNPL) schemes, allowing consumers to engage in financial activities with greater convenience. However, while it fosters innovation and competition, fintech convergence also exposes consumers to new forms of risk, including data privacy violations, unregulated lending, algorithmic bias, and financial fraud.

In the Nigerian circumstance, fintech convergence has been pivotal in promoting financial inclusion, particularly among unbanked and underbanked populations. Regulatory bodies such as the Central Bank of Nigeria (CBN) and the Federal Competition and Consumer Protection Commission (FCCPC) have taken steps to oversee fintech operations, yet significant gaps remain in addressing consumer vulnerabilities. The convergence of finance and technology thus presents both opportunities for economic empowerment and challenges to consumer protection. As Arner, Barberis, and Buckley note, fintech convergence signifies a “transformative moment” for regulators who must balance innovation with legal safeguards to ensure market integrity and consumer trust (Arner et al, *FinTech and RegTech: Impact on Regulators and Banks*, 2017).

Nature and Operational Model of Buy Now, Pay Later (Bnpl)

Buy Now Pay Later is a phrase commonly used today to describe the process of purchasing an item for which payment for the item will be made at a future date. The earliest form of Buy Now Pay Later dates back to the 19th Century where it became a norm for consumers to purchase consumer items, for example luxury items like furniture, pianos, farm equipment etc and pay in installments. These items were purchased using this medium as the consumers were unable to pay for these items with cash outright. Today, Buy Now Pay Later (BNPL) programs are becoming more common as retailers’ partner with companies to provide new flexible payment options. The items for BNPL are no longer specifically luxurious in nature, as they can be everyday items. One of the many advantages of BNPL today is the ease of repayment. Though it is often overlooked, it is pertinent to keep in perspective that BNPL is a type of short-term financing. It is a type of loan, as there is an exchange of a product for the payment to be made later in installments. More specifically, the buyer walks away with the product and the seller has made a sale and expects payment in future.

BNPL is often seen as a sales transaction and not short-term financing. This is due to the fact that the transaction is between the buyer and the seller. This medium is different from the traditional method of lending where the buyer approaches a Bank or financial institution for a loan to buy a product. The seller is paid in full and the buyer owes the Bank and spreads the payments over several months. In several cases today, especially with more consumer sales being conducted via digital mediums, in the BNPL transactions credit lines are given by the businesses themselves directly to the consumers and not through Banks or financial institutions.

With the understanding that BNPL transactions are indeed short-term financing, it then stands to reason that these types of transactions and the history of repayments may be reported to the credit bureau agencies. It remains imperative therefore that consumers should stick to the agreed repayment values and timelines as it is a reflection of your credit worthiness, can affect your credit scores and ultimately access to finance. Today, consumers who have a good track record of repayments are sought after by lenders and offered good interest rates as they have shown to be creditworthy.

Fundamental Role Player in The Bnpl Ecosystem

The Buy Now, Pay Later (BNPL) model operates within a complex ecosystem involving four principal actors’ lenders, platform providers, merchants, and consumers whose interactions collectively shape the functioning and regulatory challenges of this emerging financial service.

a. Lenders

Lenders are the financial institutions or fintech companies that provide the funds enabling deferred payments. They assess consumer creditworthiness (often through alternative data rather than traditional credit scores) and bear the default risk. Unlike conventional banks, many BNPL lenders operate under minimal regulatory oversight, raising concerns about transparency, interest disclosure, and responsible lending practices.

b. Platform providers

Platform providers such as Klarna, Afterpay, PayPal, and in Nigeria, Carbon and Paylater—act as intermediaries linking merchants with consumers. They design and manage the technological infrastructure that facilitates installment payments at the point of sale. Their algorithms determine eligibility and repayment schedules, but these processes often lack transparency, leaving consumers unaware of the long-term implications of their borrowing behaviour.

c. Merchants

Merchants benefit significantly from BNPL services, as they experience increased sales and consumer engagement. They integrate BNPL options into their payment systems to attract price-sensitive buyers, sometimes absorbing transaction fees charged by BNPL providers. However, their obligations toward ensuring consumer understanding of credit terms are often limited, creating a regulatory grey area concerning consumer disclosure.

d. Consumers

The end-users of BNPL services, are drawn to the convenience and perceived affordability of deferred payments. Yet, the absence of comprehensive credit checks and clear information can lead to over-indebtedness and financial vulnerability. Consequently, consumer protection authorities, including the Federal Competition and Consumer Protection Commission (FCCPC) in Nigeria, face the challenge of ensuring equitable liability distribution among actors within the BNPL ecosystem.

The Rise of Buy Now, Pay Later Plans

Chances are, while shopping at an online retailer, you might have encountered buy now, pay later (BNPL) payment options such as Klarna or Afterpay at checkout. According to Paul, Smoothing out a large-haul purchase over time sounds a lot nicer than paying all at once. This relatively new form of credit differs from traditional credit cards and their revolving lines of credit through its spread-out installments, usually fixed at four. BNPL requires an initial down payment with loans typically between \$50 and \$1,000 and is offered through specific retailers, tying it to the purchase of a particular product. The general idea has been around for a while, sharing notable similarities with layaway a pay-over-time payment scheme that allowed consumers to reserve an item until it was paid off in full. Layaway

remained popular throughout the 20th century until it started to decline in the 1980s due to competition from credit cards. Prior to the pandemic, BNPL was a minor part of consumer finance. It exploded in growth over the past five years. According to a Consumer Financial Protection Bureau (CFPB) Market Report, the number of BNPL loans in the United States grew more than tenfold from 16.8 million to 180 million from 2019 to 2021. In terms of the dollar volume, it went from \$2 billion to \$24.2 billion, with a large concentration of these loans occurring within the apparel and beauty industries. According to Julian Alcazar "It was the height of the pandemic consumers were stuck at home and willing to indulge on items," BNPL offers have remained high after the pandemic. In the June 2023 Survey of Consumer Expectations (SCE) Credit Access Survey, the New York Fed found that 64 percent of respondents were offered BNPL services when making a transaction, with nearly a third of those offered reporting use of BNPL in the past year.

Legal and Regulatory Framework for Financial Technology in Nigeria

This encompasses the body of rules govern the product and services offered by Fintech institutions, and the bodies established under the various laws which oversee the functioning and compliance of Fintech through a series of policies and regulations with the aim of protecting stakeholders from exploitative practices. Although Fintech has numerous advantages, it is imperative that sound regulations are put in place to guard against the attendant risks associated with it. Several legal issues have been identified in the Fintech sector, one of which is data privacy. This is because Fintech companies collect and process large amounts of data. It becomes crucial that customer data is adequately protected in order to avoid data breach. Second, money laundering activities are on the rise due to the relative ease by which Fintechs facilitate money transfer and payments. Thus, anti-money laundering (AML) regulations have been put in place, to help detect and prevent money laundering. This is in conjunction with Know-Your-Customer (KYC) measures, which require customer identification and screening, monitoring of transactions carried out via Fintech companies, and reporting of suspicious activities to the relevant authorities. It is also crucial that robust cyber protection measures are put in place in order to guard against cyber-attacks, and lastly, requirements for licensing and registration by the relevant bodies must be complied with. The various laws and regulatory bodies, in consideration of these issues, make regulations and guidelines to regulate, monitor and supervise Fintech operations in Nigeria.

The integration of Buy Now, Pay Later (BNPL) schemes into Nigeria's fintech landscape presents significant legal implications for consumer protection, financial regulation, and data privacy. BNPL operates at the intersection of credit, technology, and commerce, yet it often falls outside the scope of Nigeria's existing financial regulatory framework. Unlike traditional credit facilities governed by the Banks and Other Financial Institutions Act 2020 and the Moneylenders Laws of various states, many BNPL providers function as non-bank fintech entities. This regulatory ambiguity raises questions concerning licensing, consumer redress, and responsible lending obligations.

The Central Bank of Nigeria (CBN) has introduced frameworks such as the Regulatory Framework for Open Banking 2021 and the Guidelines for Licensing and Regulation of Payment Service Providers 2021, which indirectly influence BNPL operations. However, these instruments do not explicitly address deferred payment services or the credit risk management obligations of BNPL lenders. Consequently, BNPL firms often operate through partnerships with licensed financial institutions, thereby circumventing direct oversight. This situation creates a regulatory lacuna that exposes consumers to potential exploitation, hidden charges, and over-indebtedness.

The Federal Competition and Consumer Protection Commission (FCCPC) Act 2018 mandates fair, transparent, and equitable consumer dealings, while the Nigeria Data Protection Regulation (NDPR) 2019 safeguards users' personal data. Nevertheless, BNPL providers' reliance on algorithmic credit scoring and digital profiling raises data protection and privacy concerns, particularly regarding consent and cross-border data transfers. The CBN regulates mobile money operations in line with its objective to facilitate efficient electronic payments in Nigeria. The guidelines cover both banking and nonbanking institutions, in which case, it must be licensed by the CBN to provide mobile money services in Nigeria. It also provides that Mobile Money Operators acquire the relevant licences from the NIBSS AND Nigeria Communications Commission. Paragraph 15 stipulates compliance with the provisions of the KYC Guidelines in the Central Bank of Nigeria Anti-Money Laundering/Combating Financing of Terrorism (CBN, AML/CFT) Regulations of 2013.

Guidelines on International Money Transfer Services, 2014, Fintechs which provide international money transfer services must be licensed by the CBN,²⁴ and outlines permissible operations which may be carried on by Fintech companies in Nigeria, which include cross-border money transfer services. It also requires strict compliance with the provisions of the Central Bank of Nigeria Anti-Money Laundering/Combating Financing of Terrorism.

Guidelines on International Mobile Money Remittance Service, 2014, These guidelines aim to facilitate and regulate foreign exchange transactions through more convenient and flexible payment channels i.e. Fintechs, in Nigeria. Such Fintech companies must be duly registered, comply with all KYC requirements and risk management measures as specified under the Guidelines, and must operate in line with the various NCC and NIBSS requirements. Participants in international money remittance are provided under the Guidelines to include: Banks, Mobile Network Operators, Infrastructure Providers with their roles stated

Conclusion an Recommendation

The emergence of BNPL within the broader fintech convergence represents both an opportunity and a challenge for Nigeria's financial system. It promotes digital inclusion and consumer choice, the lack of a clear regulatory framework exposes consumers to risks of over-indebtedness, opaque credit terms, and data exploitation. Existing instruments such as the FCCPC Act, NDPR, and CBN guidelines only partially address these concerns. Lessons from advanced jurisdictions reveal that consumer protection in fintech must evolve from reactive regulation to proactive governance. Nigeria must establish a unified

fintech regulatory framework that mandates transparency, ethical lending, and accountability among BNPL actors. Strengthening institutional coordination between the CBN, FCCPC, and data protection agencies will be essential. Ultimately, safeguarding consumers while fostering innovation will determine the sustainability and integrity of Nigeria's fintech-driven financial inclusion agenda.

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