

Buy Now, Pay Later in Malaysia: Consumer Debt, Digital Credit and the Consumer Credit Act 2025

Siti Fazilah Binti Abdul Shukor^{1*}, Siti Nur Amira Binti Othman², Ku Nur Ilyani Binti Ku Abd Aziz³, Nabihah Binti Aminaddin⁴

¹Senior Lecturer, School of Accounting, Faculty of Economics and Management, Universiti Kebangsaan Malaysia, ²Assistant Professor, Department of Finance, Teh Hong Piow Faculty of Business and Finance, Universiti Tunku Abdul Rahman, ³Lecturer, Department of Commerce and Accountancy, Teh Hong Piow Faculty of Business and Finance, Universiti Tunku Abdul Rahman, ⁴Lecturer, Department of Banking and Risk Management, Teh Hong Piow Faculty of Business and Finance, Universiti Tunku Abdul Rahman

Email: amira@utar.edu.my, nurilyani@utar.edu.my, nabihah@utar.edu.my

*Corresponding Authors Email: sitifazilah@ukm.edu.my

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Abstract

Buy now, pay later (BNPL) has expanded rapidly in Malaysia, from 2.6 million users in 2023 to 7.5 million active accounts by the end of 2025 (the two series are not strictly comparable), yet until 2026 it operated largely outside any dedicated credit-conduct regime. This article offers an integrated financial and legal analysis of that expansion and of the regulatory response: the Consumer Credit Act 2025 (Act 873), and evaluates whether it resolves the consumer-debt risks and regulatory fragmentation that characterised the earlier framework. Buy Now, Pay Later (BNPL) has moved from a niche checkout option to a mainstream form of consumer credit in Malaysia. It grew quickly on e-commerce platforms, super-apps and e-wallets, and for years it did so largely outside the supervisory perimeter that applies to banks. This article examines the legal nature of BNPL and the adequacy of Malaysia's evolving regulation: how it was regulated before 2026, and how the Consumer Credit Act 2025 changes the position. The study adopts a critical doctrinal methodology, evaluating the pre-2026 framework and the Act against criteria derived from the consumer-debt literature. Unlike earlier studies that treat consumer debt, regulatory fragmentation and the new statute separately, it analyses them together. The paper argues that while the Act closes historical gaps in the legal treatment of BNPL, insufficient safeguards may still expose consumers to unsustainable debt accumulation and financial instability. It then identifies the gaps that remain and offers recommendations for regulators, providers, consumers and policymakers.

Keywords: BNPL, Fintech Regulation, Consumer Protection, Consumer Credit Act 2025, Malaysia

Introduction

The global financial technology (Fintech) sector has undergone a structural paradigm shift, characterized by the proliferation of point-of-sale digital credit products. Among these innovations, Buy Now, Pay Later (BNPL) schemes have emerged as the fastest-growing short-term financing tool in Southeast Asia, with Malaysia serving as a focal point for rapid market penetration (Mustapa et al., 2025; Wong et al., 2025). Operating primarily as frictionless, digital installment payment arrangements integrated directly into merchant checkouts, BNPL enables consumers to divide purchases into zero-interest installments, typically spanning 3 to 12 monthly payments without undergoing traditional banking underwriting or formal credit scoring (Alias et al., 2025).

FinTech has transformed the global financial ecosystem by altering how retail consumers access credit facilities, payment systems, and purchasing channels. Among digital credit innovations, Buy Now Pay Later (BNPL) represents a rapid micro-financing mechanism that allows buyers to obtain goods or services immediately while deferring the purchase price across interest-free short-term installments. Operating through digital platforms such as Atome, SPayLater, and Grab PayLater, BNPL bypasses the stringent underwriting documentation, manual credit checks, and physical collateral requirements traditionally demanded by commercial banks.

In Malaysia, the convergence of high smartphone penetration, expanded e-commerce infrastructure, post-pandemic liquidity adjustments, and stagnant real wage growth has positioned BNPL not merely as a convenient payment method for discretionary shopping, but increasingly as a crucial financial lifeline for lower-income households purchasing daily essentials (Hishamudin, 2024; BFM 89.9, 2026). While BNPL promotes digital financial inclusion by granting instant credit access to gig economy workers, students, and unbanked populations, its unregulated expansion has generated acute concerns regarding household debt accumulation, systemic credit risk, and religious legal compliance (Wong et al., 2025; BFM 89.9, 2026).

In Malaysia, BNPL usage expanded exponentially alongside the country's rapid digital commerce growth. Market data indicates that during the first half of 2025, Malaysia recorded 102.6 million BNPL transactions worth RM9.3 billion, with total outstanding balances reaching RM3.8 billion to RM4.9 billion. By the second half of 2025, volume surged to 140.3 million transactions valued at RM11.9 billion, bringing active account holders to 7.5 million. By Q1 2026, active accounts reached 8 million, with total cumulative credit balances rising to RM5.3 billion and RM181 million recorded in overdue or non-performing debt. Crucially, young consumers under 30 years old account for approximately 40% of all BNPL transactions, establishing youth indebtedness as a critical socio-legal priority.

The core dilemma surrounding BNPL centers on its fundamental structural ambiguity. Unlike traditional credit products governed by central banking authorities, BNPL historically operated in a state of legal arbitrage (Wong et al., 2025; Zainudin & Othman, 2024). BNPL platforms falling outside the direct regulatory jurisdiction of Bank Negara Malaysia (BNM)

under the Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA) due to their classification as non-bank credit sales (Wong et al., 2025). Legacy consumer protection legislation, notably the Consumer Protection Act 1999 (CPA) and the Consumer Protection (Credit Sale) Regulations 2017, proved structurally inadequate to monitor digital fintech intermediaries, leaving borrowers exposed to unrated credit risks, aggressive onboarding, opaque fee disclosures, and punitive late payment charges (Wong et al., 2025). By structuring transactions as deferred payment sales or merchant receivable assignments rather than direct loans of money, non-bank fintech platforms evaded statutory interest rate caps under the Moneylenders Act 1951 (Act 400) and hire-purchase rules under Act 212.

Furthermore, empirical data reveals an alarming demographic concentration: over 73% of Malaysian BNPL users belong to the lower-income B40 demographic (<RM5,000/month), while 40% are youth aged 30 and below (BFM 89.9, 2026; Ali et al., 2025). In a nation where Islamic finance forms a cornerstone of the national banking system, BNPL also poses complex Shariah governance challenges regarding interest-like fee structures, uncertainty (Gharar), and penalty enforcement (Ta'widh vs. Gharamah) (Yusof & Ibrahim, 2024; Rashid, 2024). This concentration raises critical concerns regarding financial distress, debt stacking, and long-term household insolvency.

Accordingly, this article is led by the following central research question: To what extent does Malaysia's evolving legal and regulatory framework adequately govern Buy Now Pay Later (BNPL) services while balancing financial inclusion, consumer protection, and the long-term sustainability of the digital consumer credit market? To address this question, the article adopts a critical doctrinal methodology informed by a critical synthesis of the relevant literature, presented in the next section. Specifically, the article critically analyses the legal nature of BNPL and evaluates the adequacy of Malaysia's regulatory framework under the Consumer Credit Act 2025 to ensure responsible lending, consumer protection, and effective regulatory oversight.

This article addresses a gap that the existing scholarship, reviewed in the next section, leaves open. It uses consumer-debt risk as an analytical lens to evaluate the pre-2026 fragmented framework and the Consumer Credit Act 2025 together. It makes three contributions. First, it links documented debt harms to the specific legislative omissions that allowed them. Second, it reframes regulatory fragmentation as a continuing analytical problem, showing how divergent affordability triggers and delegated standards may reproduce it after reform. Third, it provides a critical evaluation of the treatment of BNPL under Act 873 and identifies residual gaps with targeted recommendations.

Literature Review and Research Gap

Research on BNPL in Malaysia has developed along four largely separate strands. The first documents consumer-debt risk. Ali et al. (2025), for example, examine BNPL and impulsive buying among Generation Z, and so help explain who uses BNPL and why it can become a source of financial strain. This work establishes that the risk is real, but it does not ask whether any legal instrument is capable of responding to it.

The second strand analyses regulatory classification. Zainudin and Othman (2024) and Wong et al. (2025) show how BNPL fell between the Consumer Protection Act 1999, the

Moneylenders Act 1951, the Hire-Purchase Act 1967 and the Financial Services Act 2013, leaving similar credit risks subject to different rules depending on contractual form. These studies provide the diagnostic foundation for the present article. However, they treat fragmentation as a feature of the pre-reform landscape and were written before the Consumer Credit Act 2025 (Act 873) took effect, so they cannot say whether the Act resolves it.

The third strand addresses Shariah compliance and consumer protection in Islamic contexts (Md Rashid, 2024; Anuar Ali et al., 2025; Yusof & Ibrahim, 2024; Ilias, 2024). It clarifies how *riba*, *gharar* and *ta'widh* bear on BNPL contracts and fee structures. Its concern, however, is chiefly the permissibility of the product rather than the indebtedness of the household. Ilias (2024), which considers reform of Islamic consumer credit in the non-bank sector, comes closest to the subject of this article, but it does not evaluate BNPL against the debt risks identified in the first strand. Finally, comparative work such as Soni (2023) offers a consumer-financial-protection analysis of BNPL, but it concerns the United States rather than Malaysia's dual regulatory system.

Commentary on Act 873 itself comes mainly from regulator releases and press reports (SKP, 2026a; SKP, 2026b; The Edge Malaysia, 2026). These explain what the Act provides but do not test it against the risks that the earlier literature identified. Two gaps follow. First, to the authors' knowledge, no study links specific debt harms (stacking, fee escalation, drift towards longer tenors, and concentration among B40 and young users) to the specific regulatory omissions that allowed them. Second, no study asks whether Act 873, together with its delegated standards and the continuing division of oversight between Bank Negara Malaysia (BNM) and the Suruhanjaya Kredit Pengguna (SKP), resolves fragmentation or merely relocates it. This article addresses both gaps by evaluating consumer-debt risk, regulatory fragmentation and the Act within a single legal analysis.

Method

This article adopts a qualitative, critical doctrinal methodology. The doctrinal analysis examines regulatory instruments and official statements that govern or describe BNPL in Malaysia. Primary legal materials relate to consumer credit, consumer protection, and digital financial services. Particular emphasis is placed on the Consumer Credit Act 2025 and regulatory materials issued by the Suruhanjaya Kredit Pengguna. Primary and secondary materials are evaluated against four criteria derived from the debt-risk literature: (1) perimeter coverage, that is, whether BNPL is captured by substance rather than label; (2) affordability and stacking controls; (3) fee and penalty regulation; and (4) redress and enforcement. Aggregate market data published by BNM and the Ministry of Finance are used to test whether the identified risks are material, not merely to describe market growth.

Two limitations should be stated. First, much of the BNM and Ministry of Finance data is accessed through parliamentary replies and press releases rather than the primary publications, and different sources report slightly different overdue ratios for the same date. Second, the Consumer Credit Act 2025 was reviewed principally, and the content of the Conduct Standards is described here through SKP's published summary and practitioner commentary.

Buy Now Pay Later

Buy now, pay later (BNPL) schemes allow a consumer to obtain goods or services immediately and to pay the price in a limited number of instalments, frequently without interest if payment is made on time. The product is typically delivered through a mobile application or an e-commerce checkout, approval is automated and often instantaneous, and the provider earns revenue principally from merchants and from late fees rather than from interest charged to the consumer (SKP, 2026a; SKP, 2026b). These features have made BNPL attractive to consumers who are under-served by conventional credit, but they have also allowed a form of consumer credit to be marketed as something other than debt.

In Malaysia, the growth has been striking. The Ministry of Finance reported that BNPL users rose from 2.6 million in 2023 to 7.5 million by the end of 2025 (Malay Mail, 2026a). Bank Negara Malaysia (BNM) has consistently characterised the associated financial-stability risk as contained, because outstanding BNPL balances remain a small fraction of household debt. Yet the same central bank has described the segment's expansion as warranting close monitoring, and until 2026 the sector lacked a licensing gateway, mandatory affordability assessment or uniform conduct rules (Malay Mail, 2026b).

SKP describes the characteristic BNPL model as one in which the provider pays the merchant, usually at a discount, and the consumer repays the full price on agreed terms. It also notes variants in which the provider pays the merchant in full and recovers the amount with a margin from the consumer, and models that charge both merchant and consumer at lower rates (SKP, 2026b). Most schemes operate wholly online; repayment may be a single payment after a fixed period or instalments, and approval is typically granted per transaction or against a pre-set credit limit. SKP also observes that BNPL, originally used for online purchases, is increasingly accepted in physical retail and is commonly used for everyday spending such as food and beverage, retail shopping and transport.

BNM has reported that providers have moved towards higher-value transactions and longer instalment periods of up to 24 months, compared with the one to six months previously observed (Malay Mail, 2025a). This matters legally and economically, because a 24-month instalment plan is functionally closer to personal financing than to a short-term payment deferral.

Table 1

Malaysian BNPL indicators, 2024 to Q1 2026

Date	Outstanding balance	Share of household debt	Active users/accounts	Overdue	share of balance
Jun 2024	n/a	n/a	4.3m		2.6%
Dec 2024	RM2.8bn	0.2%	5.1m		2.9%
Jun 2025	RM3.8bn	0.2%	6.5m		3.2%
Dec 2025	RM4.9bn	0.3%	7.5m	3.2% (BNM); 3.3% (MoF)	
Q1 2026*	RM5.3bn	c. 0.3%	8.0m		n/a

Sources: BNM Financial Stability Review (2H 2024 and 2H 2025) and Ministry of Finance replies, as reported in Malay Mail and The Edge Malaysia. An 'active user' is an account holder

with at least one BNPL transaction in the preceding 12 months. *Q1 2026 figures are drawn from a secondary compilation reporting BNM data.

Two features of the data deserve emphasis. First, growth is driven by users rather than by balances per user: BNM attributes the rise in outstanding debt principally to a sharp increase in active accounts (Malay Mail, 2026b). Second, the overdue share has risen from the 2.6 per cent recorded in the first half of 2024 but remains below the approximately 6 per cent BNM recorded in the segment's early stage in March 2023. A 2024 study by the Consumer Credit Oversight Board Task Force of 21,000 active account holders found that about 88 per cent paid on time, 12 per cent paid late but in full, and fewer than 0.5 per cent failed to repay in full (Malay Mail, 2025b).

The official position is that BNPL poses limited systemic risk. Outstanding balances of RM4.9 billion at end-2025 represent roughly 0.3 per cent of household debt, the overdue share is stable at around 3.2 to 3.3 per cent, and BNM has observed provider practices that mitigate distress, including lower initial limits for new users, immediate suspension of facilities on a missed payment, and proactive limit management for users anticipated to face difficulty. As a statement about systemic stability, this is persuasive. Parliamentary replies reported in early 2026 indicated that BNPL use is heavily concentrated among younger and lower-income users and that the average ticket size is modest, with use for essentials such as food, groceries, transport and services (Bernama, 2026). A product whose aggregate share of debt is small may nonetheless be material to the household budgets of those who use it for recurring expenses. Aggregate-to-GDP or aggregate-to-household-debt ratios are, by construction, insensitive to this distribution (Bernama, 2026; Malay Mail, 2026a; Malay Mail, 2026b; SKP, 2026a; SKP, 2026b; CCOB Task Force, 2024).

Since BNPL providers have historically had limited visibility of one another's exposures, a consumer can hold several facilities whose combined instalments exceed capacity although each, in isolation, appears modest. This is the 'instalment congestion' problem: the risk is correlated within households, not across the economy. It is also an information problem. If the lender cannot see total indebtedness, its affordability decision is necessarily partial, and the regulatory remedy (mandatory affordability assessment) is only as strong as the data that supports it. The move to higher-value transactions and 24-month tenors, together with models in which the provider recovers its outlay from the consumer with a margin, means that part of the BNPL market now resembles instalment financing (Malay Mail, 2025a). For such products the justification for light-touch treatment, namely that they are short-term and interest-free, weakens. The legal question is whether the regulatory framework follows the economic substance of the product or its label.

Evidence of high on-time repayment, such as the Task Force study, counsels against overly prescriptive regulation that would deny credit to disciplined users (SKP, 2026a; SKP, 2026b; CCOB Task Force, 2024). But on-time repayment among current users does not establish that the marginal user, for whom approval is a function of low-friction onboarding, is equally resilient, and the study's sample was of active account holders, which may understate those who have stopped using the product after difficulty. The appropriate response is a risk-based regime: light for small, short-tenor exposures, and stricter for larger limits and longer tenors.

Malaysia has two affordability triggers for BNPL: a cumulative BNPL credit limit of RM1,500 or above for BNM-regulated financial service providers, and a credit limit exceeding RM1,000 for SKP-regulated providers (SKP, 2026a; SKP, 2026b CCOB Task Force, 2024). Divergence invites regulatory arbitrage in both directions: a provider may prefer whichever perimeter imposes the lower burden, and a consumer's protection may depend on the identity of the lender rather than the risk of the credit. The BNM approach, which looks at the cumulative limit, is also better matched to the stacking problem than a per-facility limit. Harmonisation, including on the question of whether the test applies to individual or cumulative exposure, is a priority. Under the second criterion, this divergence is a continuing fragmentation problem, not merely a pre-reform one: it persists after Act 873 unless the two thresholds are aligned.

Legal Position before 2026

Historically, BNPL operates in a state of legal arbitrage within Malaysia's dual financial system (Zainudin & Othman, 2024; Wong et al., 2025). Before 2026, Malaysian credit regulation was scattered across numerous laws and regulations. Regulators regulated a transaction if it fit a recognised category (a bank loan, a moneylending contract, a hire-purchase agreement) and ignored it if it did not. The legislative framework comprised provisions for financial institutions, moneylenders, and consumer transactions. BNPL was designed to fall somewhere between these two categories: title to products transfers at the time of sale, so it is not hire-purchase; the consumer typically pays no interest, so it does not appear to be moneylending; and the provider is frequently a technology or payments firm rather than a deposit-taker. As a result, depending on the contractual language, identical economic risks received varying legal treatment.

However, the structure of BNPL does not always fall cleanly into these traditional classifications. This resulted in regulatory classification difficulties. BNPL was primarily a credit transaction, but it was carried out in a digital retail context and frequently by non-bank institutions. The regulatory difficulty was not simply a lack of laws. The current legal framework was not expressly built to accommodate BNPL's technological and commercial structure. As non-bank financial technology entities, BNPL operators fell outside the direct supervisory jurisdiction of Bank Negara Malaysia (BNM) under the Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA), as well as the Ministry of Housing and Local Government (KPKT) under the Moneylenders Act 1951 (Zainudin & Othman, 2024; Wong et al., 2025). This statutory gap arose because BNPL installment plans were structured without conventional interest charges, evading traditional definitions of lending.

Under the Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA), Bank Negara Malaysia's direct supervisory mandate was restricted to licensed banking institutions, insurance companies, and prescribed payment system operators. Non-bank fintech lenders offering installment credit were exempted from core banking prudential standards, capital adequacy rules, and mandatory credit risk assessment guidelines (Wong et al., 2025). BNPL providers owed no prudential or credit-risk assessment duties, so no framework required them to test whether a user could sustain additional debt.

BNPL providers in Malaysia largely operated outside the Moneylenders Act 1951 (Act 400). Act 400 regulates the business of moneylending through licensing under the Ministry of Housing and Local Government (KPKT), prescribed contract forms, and statutory simple

interest ceilings: section 17A (1) caps simple interest at 12% per annum for secured loans, while section 17A (2) caps simple interest at 18% per annum for unsecured loans. BNPL arrangements arguably fell outside the statutory notion of a 'loan of money' under Act 400. Rather than advancing cash under a traditional bilateral credit agreement, BNPL platforms operate a tri-party digital model structured as deferred-payment sales (Bai' Bithaman Ajil or Murabahah) or point-of-sale assignments of merchant receivables. Consequently, these schemes are funded principally by merchant discount fees (commissions) ranging between 2% and 8% rather than revolving consumer interest, with default charges styled as administrative late fees (ta'widh) or processing charges rather than statutory interest (Ali et al., 2025; Soni, 2023; Wong et al., 2025; Zainudin & Othman, 2024). So, Act 400 turned on the label of a loan of money; identical economic risk escaped licensing and interest ceilings depending on contractual form.

The existing consumer protection statutes proved structurally ill-equipped to regulate digital installment credit. Firstly, the Consumer Protection Act 1999 (CPA) was designed primarily for offline physical retail. The CPA lacked explicit provisions governing digital credit underwriting, automated algorithmic scoring, and fintech lending practices (Zainudin & Othman, 2024). Secondly, the Consumer Protection (Credit Sale) Regulations 2017 were enacted under Section 24AA of the CPA to regulate installment sales; these regulations applied strictly to merchant-direct credit transactions where the seller directly extended credit to the buyer (Zainudin & Othman, 2024; Wong et al., 2025). In BNPL schemes, however, a third-party fintech provider pays the merchant upfront and collects installments from the buyer, placing BNPL outside the ambit of the 2017 Regulations (Zainudin & Othman, 2024). Therefore, BNPL users received neither credit-sale disclosure protections nor any affordability obligation on the provider.

Similarly, statutory consumer credit protection under the Hire-Purchase Act 1967 (HPA 1967) proved inapplicable to BNPL arrangements. HPA 1967 protects hirers by prescribing mandatory pre-contractual and contractual disclosures (s 4), capping terms charges and regulating early-completion rebates (s 14), and imposing strict procedural requirements prior to repossession, such as issuing a 21-day statutory notice under the Fourth Schedule (s 16). However, BNPL schemes fell outside HPA 1967 due to two fundamental legal boundaries. First is ownership mechanics and title transfer; under section 2(1) of HPA 1967, a hire-purchase agreement is defined as a letting of goods with an option to purchase, where legal ownership remains vested in the owner until the final installment is paid. Second is the subject matter scope, which applies strictly to defined categories of goods listed under its First Schedule (e.g., motor vehicles, consumer durables such as refrigerators and television sets).

Conversely, BNPL arrangements transfer legal title and ownership of goods immediately to the consumer at the point of sale (POS) upon upfront settlement of the merchant's invoice by the fintech provider (Soni, 2023; Zainudin & Othman, 2024). BNPL platforms extend credit across non-scheduled consumer items and an expansive range of service-based transactions, including travel bookings, food delivery, digital subscriptions, and beauty services, that fall completely outside the statutory schedule (Ali et al., 2025; Zainudin & Othman, 2024). Consequently, BNPL providers operated entirely outside Act 212. Hirers received none of the Act's statutory repossession or default termination protections, nor were providers subject to HPA 1967's statutory caps and calculation rules regarding terms charges and late penalties

(Wong et al., 2025). With that, the protection turned on the form of the contract (title retention and scheduled goods) rather than on the credit risk borne by the consumer.

Furthermore, default penalties and late payment charges under BNPL user agreements expose the limits of general contract law, specifically Section 75 of the Contracts Act 1950 (CA 1950). Section 75 governs default-stipulating clauses by providing that when a contract names a sum payable in the event of a breach, the non-defaulting party is entitled to receive 'reasonable compensation' from the defaulting party, not exceeding the named sum, regardless of whether actual damage or loss is proved. Malaysian courts have consistently interpreted Section 75 as setting an upper ceiling rather than granting an automatic entitlement to the stipulated sum (*Selva Kumar a/l Murugiah v Thiagarajah a/l Mayilvaganam* [1995] 1 MLJ 817; *Cubic Electronics Sdn Bhd v Mars Telecommunications Sdn Bhd* [2019] 6 MLJ 15). Under the restated judicial framework in *Cubic Electronics*, once a breach is established, the innocent party bears the threshold burden of demonstrating that the stipulated default charge is not extravagant or unconscionable relative to the legitimate interest being protected. In theory, Section 75 provides a robust judicial mechanism against unconscionable late payment charges.

In the operational context of digital BNPL credit, however, Section 75 has proved entirely ineffective as a systemic consumer safeguard. Because private contract law doctrines rely on private litigation to enforce reasonableness standards, Section 75 failed to protect vulnerable consumers against predatory fee structures. This doctrine's failure directly necessitated public law intervention under Bank Negara Malaysia's Policy Document on Personal Financing (2023/2024), which restricts late payment charges strictly to actual administrative recovery costs (ta'widh), and the statutory enactment of the Consumer Credit Act 2025 (Act 873), which empowers the Suruhanjaya Kredit Pengguna (SKP) to impose binding statutory caps on late fees across all non-bank credit platforms (Ali et al., 2025; SKP, 2026a; Wong et al., 2025; Yusof & Ibrahim, 2024). Section 75, the doctrine on stipulated sums, offers only an ex post and individual remedy. A cap on aggregate late fees as a proportion of the amount financed, and a prohibition on compounding or stacked fees, would address the risk directly.

Regulation of The Consumer Credit Act 2025

To address regulatory fragmentation, the Malaysian Parliament enacted the Consumer Credit Act 2025 (Act 873). Officially gazetted on December 31, 2025, and brought into full statutory force on March 1, 2026, Act 873 establishes an overarching, unified regulatory regime governing all non-bank credit providers and credit service providers in Malaysia (SKP, 2026a; The Edge Malaysia, 2026). The legislation introduces a unified regulatory framework governing BNPL operators, money lenders, pawnbrokers, and hire-purchase entities (Wong et al., 2025). The regulations have established the Consumer Credit Oversight Board Task Force (CCOB), which formally transitions into an independent statutory authority. The CCOB is tasked with licensing, supervising, and enforcing conduct standards for non-bank credit providers (Zainudin & Othman, 2024; Wong et al., 2025). The Act 873 defines function-based statutory terms that replace legacy form-based classifications for credit, credit consumer, credit business, and credit service business (CCOB Task Force, 2024; SKP, 2026a).

Firstly, credit is defined broadly as any facility or arrangement that leaves a person in debt or with a financial obligation, or that permits payment for goods or services sold to a person to

be made in installments, alongside any other financial arrangement designated by the Consumer Credit Commission. Crucially, under the installment limb of this definition, the presence or absence of explicit interest charges is legally immaterial; it is sufficient that payment is deferred and spread over time, directly capturing all 'zero-interest' BNPL arrangements (CCOB Task Force, 2024; SKP, 2026a). Secondly, credit consumers are known as natural persons obtaining credit primarily for personal, domestic, or household purposes; Micro and Small Enterprises (MSEs) borrowing up to a prescribed financial threshold (indicated at RM300,000 by the Minister of Finance); individuals acting as social guarantors; and any other category of vulnerable borrowers specified by the Commission (SKP, 2026a; Wong et al., 2025).

Thirdly, credit business is enumerated in a statutory schedule to explicitly capture non-bank credit activities, including traditional moneylending, pawnbroking, hire-purchase, credit sales, leasing, factoring, and BNPL schemes. Importantly, the schedule incorporates full statutory parity for Islamic credit equivalents, explicitly capturing Islamic BNPL structures (Bai' Bithaman Ajil, Murabahah, and Qard) to enforce uniform governance across Malaysia's dual financial system (Ali et al., 2025; Ilias, 2024; SKP, 2026a). Fourthly, credit service business extends regulatory oversight to ancillary service entities within the credit value chain, including third-party debt collection agencies, impaired loan or financing acquisition firms, repossession operators, debt counseling and management agencies (such as AKPK), and online crowdlending platforms (SKP, 2026a; The Edge Malaysia, 2026). By explicitly naming BNPL as a defined statutory credit business, Act 873 removes the legal defense that digital deferred-payment sales or point-of-sale receivable assignments are not 'true' loans, establishing a comprehensive, unambiguous statutory baseline for all digital credit providers (Wong et al., 2025; Zainudin & Othman, 2024).

In the BNPL sector, the practical regulatory effect is that the SKP serves as the primary supervisory authority for providers that were previously unregulated. The SKP is invested with comprehensive statutory powers to grant or revoke operational licenses, supervise business practices, inspect digital underwriting algorithms, and enforce mandatory transaction reporting to central credit bureaus (CCRIS/CTOS) (SKP, 2026a; The Edge Malaysia, 2026; Wong et al., 2025). Concurrently, credit service providers, including debt collection agencies, impaired loan or financing acquisition firms, repossession operators, and debt counseling and management agencies (e.g., AKPK), must formally register with the Commission (SKP, 2026a; The Edge Malaysia, 2026). The SKP is empowered to grant licenses to applicants that meet minimum financial capital requirements, fulfill fitness and probity standards, and comply with applicable authorization standards, conduct guidelines, and statutory conditions (CCOB Task Force, 2024; SKP, 2026a).

Next, it requires all BNPL operators to obtain authorization licenses and mandates compulsory reporting of consumer credit data to registered credit bureaus, intended to close the credit invisibility loophole (Lim, 2025; Wong et al., 2025; The Edge Malaysia, 2026; SKP, 2026a). Then, it extends regulatory coverage to ancillary entities, including third-party debt collection agencies, credit counseling bodies (AKPK), and impaired loan buyers, constraining predatory debt recovery practices (SKP, 2026a). It also requires BNPL operators to report all real-time transaction data and repayment histories to central credit reporting agencies (CCRIS/CTOS), which is designed to address the loan stacking phenomenon, although its effect depends on

the timeliness of reporting and on a harmonised affordability test (Wong et al., 2025; SKP, 2026a). Together, these statutory mechanisms ensure that the ultimate liability for operating an unlicensed BNPL platform is not confined to administrative fines or criminal sanctions but extends to the total loss of legal rights to enforce and recover outstanding consumer debt balances (Ali et al., 2025; SKP, 2026a; Wong et al., 2025).

Furthermore, it also establishes statutory ceiling caps on late payment fees and non-interest administrative charges to curb predatory fee structures (Wong et al., 2025; The Edge Malaysia, 2026; SKP, 2026a). Lastly, imposes positive statutory obligations on credit providers marketing Islamic BNPL products to ensure complete conformity with Shariah principles, authorizing direct referrals to the Shariah Advisory Council (SAC) for legal determinations (Ali et al., 2025). Specifically, Section 87 of Act 873 expressly prohibits credit entities from engaging in misleading or deceptive conduct regarding credit terms or costs, inducing a consumer to enter into or refrain from entering into a credit contract, exercising undue pressure, harassment, coercion, or physical/digital threats during marketing or debt recovery, and demanding payment for unsolicited credit products or unauthorized digital extensions (SKP, 2026a; Wong et al., 2025). Act 873 establishes a principle-based framework combined with a negative prohibition list, while delegating the operative content of affordability metrics, fee limits, and hardship relief guidelines to subsidiary instruments. Legally, this bifurcated structure provides the SKP with essential regulatory agility to adapt to emerging fintech business models without requiring primary legislative amendments.

In Malaysia's dual-banking system, Shariah compliance is mandatory for fintech products targeting Muslim consumers. On January 24, 2024, the Shariah Advisory Council (SAC) of Bank Negara Malaysia issued a binding ruling establishing that BNPL facilities are permissible in principle (Md Rashid, 2024; Anuar Ali et al., 2025). Recognizing the prominent role of Islamic fintech in Malaysia, Part VI of Act 873 explicitly defines Islamic BNPL schemes as a distinct statutory credit business and imposes a positive legal duty on Islamic credit providers to ensure that their business, contractual arrangements, and operational management strictly conform to Shariah principles (Ali et al., 2025; Ilias, 2024; SKP, 2026a). Under statutory provisions, compliance with an SAC ruling is deemed to constitute full compliance with Shariah for the activity concerned (Ali et al., 2025; SAC BNM, 2024; SKP, 2026a).

The SAC classified BNPL as an evolved digital manifestation of traditional deferred payment sales (such as Bai' Bithaman Ajil [BBA] or Murabahah), provided specific Shariah safeguards are satisfied (Md Rashid, 2024; Anuar Ali et al., 2025). Prohibition of riba (Usury) means contractual charges cannot function as interest-bearing loans (Qard with interest). Financing margins must be rooted in valid sale transactions (Anuar Ali et al., 2025; Md Rashid, 2024). Avoidance of Gharar (uncertainty) and Maysir (Gambling) is known as requiring that all fee schedules, installment amounts, and contractual terms be fully disclosed during the aqad (offer and acceptance). Promotional designs that induce reckless debt or impulse gambling are strictly prohibited (Md Rashid, 2024; Anuar Ali et al., 2025). The penalty mechanism of Ta'widh vs. Gharamah, such as late payment charges, is strictly regulated. Under SAC rules, late fees can only be charged under the principle of Ta'widh. Late payment charges may be imposed only to compensate the provider for actual, verified administrative recovery costs incurred due to default, and such funds may be retained as provider revenue (Anuar Ali et al., 2025; Md Rashid, 2024). Next, any additional penalty fee is known as Gharamah. Any late fee

charged in excess of actual administrative recovery costs constitutes a financial penalty (gharamah). Providers cannot recognize gharamah as income or profit; all excess penalty funds must be channeled to Shariah-approved charitable organizations (Anuar Ali et al., 2025; Md Rashid, 2024).

Evaluating Act 873 against the Debt Risks

The preceding analysis shows that Act 873 largely resolves the classification problem. Whether it also resolves the debt-risk problem is a different question. Table 2 maps each debt risk identified above to the pre-2026 gap, the Act's response and the gap that remains. The first three columns draw on the sources cited; the final column is the authors' own assessment.

Table 2

Debt risks, regulatory gaps and Act 873

Debt risk	Pre-2026 gap	Act 873 response	Residual gap
Stacking and instalment congestion	No cross-provider visibility of exposures	Mandatory CCRIS/CTOS reporting; SKP affordability trigger for limits above RM1,000 (SKP, 2026a; SKP, 2026b; Wong et al., 2025)	Data quality and timing; RM1,500 cumulative (BNM) versus RM1,000 (SKP) triggers
Fee escalation	Section 75, Contracts Act 1950: ex post, individual remedy only (Cubic Electronics, 2019)	SKP late-fee ceilings (Wong et al., 2025; The Edge Malaysia, 2026; SKP, 2026a)	Ceilings and non-compounding rules sit in subsidiary instruments
Drift towards longer tenors	Regulation by label rather than substance (Zainudin & Othman, 2024)	Functional definition of credit, covering interest-free instalments (CCOB Task Force, 2024; SKP, 2026a)	Risk-based tiering by limit and tenor depends on standards
Classification arbitrage	Gaps under Act 400, Act 212 and the CPA 1999 (Zainudin & Othman, 2024; Wong et al., 2025)	Functional definition; licensing; unenforceability of unlicensed agreements (SKP, 2026a)	BNM and SKP perimeters persist
Vulnerable users (B40, under 30)	No targeted protection	Commission may specify vulnerable borrowers (SKP, 2026a; Wong et al., 2025)	Substantive protections left to the Commission
Redress	Private litigation only	SKP supervision and enforcement (SKP, 2026a)	Accessibility of redress not addressed

Source: Authors' analysis, drawing on the sources cited.

The most consequential residual gap is the divergence in affordability triggers. A cumulative limit of RM1,500 applies to BNM-regulated providers, whereas the SKP threshold, as reported, is framed by reference to a credit limit exceeding RM1,000 rather than cumulative exposure (SKP, 2026a; SKP, 2026b). A consumer's protection therefore depends on the identity of the lender rather than the risk of the credit, and only one of the two tests is well matched to instalment congestion. Until the thresholds are aligned, the Act closes the

classification gap across perimeters while reproducing, in a different form, the fragmentation it was designed to end.

Act 873 therefore largely resolves the classification problem but only partly the debt-risk problem. Its principle-based design delegates affordability metrics, fee limits and hardship relief to subsidiary instruments, so whether fragmentation is cured or merely relocated turns on those instruments and on alignment between BNM and the SKP. The framework's strength is its functional perimeter; its exposure is that the protections most relevant to over-indebtedness (affordability thresholds, fee ceilings and protections for vulnerable users) are set outside the statute.

Conclusion and Recommendations

BNPL in Malaysia illustrates both the benefits and the risks of digital consumer credit: rapid, low-friction access to credit for the underserved, alongside a design that makes borrowing feel like something less than debt. The aggregate data support the view that BNPL is not a threat to financial stability, but they cannot establish that it is harmless for the households that depend on it, and this article has argued that the more relevant measure is concentration, stacking and product drift rather than the headline share of household debt. The gazettment of the Consumer Credit Act 2025 (Act 873) and the establishment of the Suruhanjaya Kredit Pengguna (SKP) represent a significant structural reform, closing the principal classification gaps left by legacy statutes. By defining credit functionally, requiring licensing and making unlicensed agreements unenforceable, it closes the principal perimeter gap that allowed BNPL to grow without a dedicated regime. Its ultimate effect, however, depends on matters that lie largely outside the statute: the specificity of the standards, the alignment of the BNM and SKP regimes, the integration of credit data, and the accessibility of redress. If those are addressed, Malaysia can preserve the inclusion benefits of BNPL while limiting its harms. If they are not, the new framework risks reproducing in a different form the arbitrage it was intended to end. In answer to the research question, the Act substantially closes the classification gap but only partly the debt-risk gap, and this integrated assessment of consumer debt, regulatory fragmentation and the new statute is what the earlier literature had not yet provided.

To optimize the implementation of Act 873 and ensure sustainable fintech growth, this paper proposes some recommendations such as active SKP enforcement, a standardised Shariah framework, and a digital financial capability program. First, the SKP must mandate integration between BNPL platforms and central credit bureaus (CCRIS/CTOS) prior to granting full licenses, preventing cross-platform loan stacking. Second, Bank Negara Malaysia and the SKP should mandate formal Shariah certification for all BNPL products marketed in Malaysia, prohibiting cumulative late penalties and requiring full transparency regarding Ta'widh cost calculations and Gharamah charitable donations. Third, educational initiatives led by AKPK and the Ministry of Higher Education must integrate BNPL-specific budgeting modules into secondary and tertiary curricula, empowering young consumers to recognize the psychological traps of digital micro-debts. Fourth, BNM and the SKP should harmonise the BNPL affordability trigger, adopting a cumulative-exposure test across both perimeters to address instalment congestion. Fifth, the SKP's subsidiary instruments should tier requirements by limit and tenor, so that longer-tenor products that function as instalment financing attract stricter affordability and fee controls than small, short-tenor exposures.

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