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Buy Now Pay Later

Insights from

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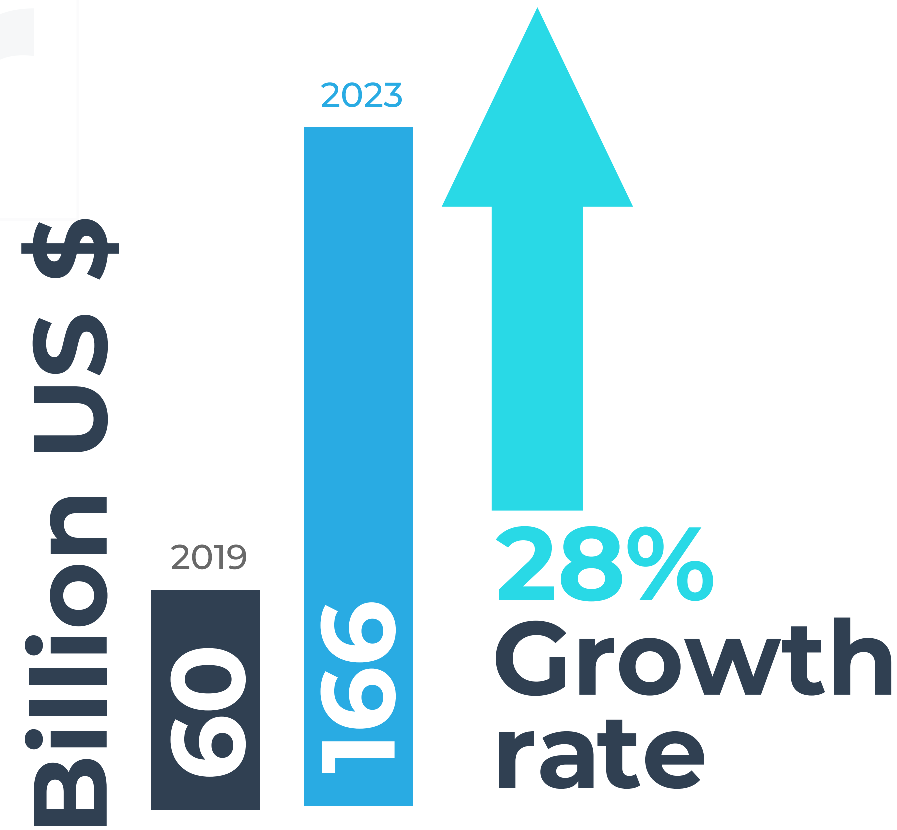
Introduction

South African consumers are increasingly embracing the use of interest-free financing for the purchase of items to improve their daily cash flow.

Unlike traditional interest-applied credit payment models, the Buy-Now-Pay-Later (BNPL) fintech model allows consumers to pay for their credit purchases over time, with no interest applied.

In the UK, the use of BNPL products nearly quadrupled in 2020 to £2.7 billion, reports the UK Financial Conduct Authority, while Australia’s A$900 million BNPL sector will likely see more merger and acquisition activity in 2022 says S&P Global.



While the US$60 billion BNPL market represented 2.6% of global e-commerce (ex-China) in 2019, RBC Capital Markets puts global BNPL growth at a compound annual growth rate (CAGR) of 28% to reach US$ 166 billion by 2023.

The Buy-Now Pay-Later model

The BNPL payment model allows consumers to pay for their online or in-store purchases over time, using predetermined, equal interest-free payments. One key differentiator is that consumers can secure their purchases immediately rather than having to wait until all instalment payments have been made.

Many retailers are increasingly turning to BNPL because it increases conversion rates by between 20% and 30%, and lifts average ticket sales by between 30% and 50%.

Merchants are far more likely to make a sale and their conversion rate is far higher when using online BNPL platforms. Consumers generally buy more because they receive the product upfront and can pay it back interest-free over a period. A critical part of the BNPL ecosystem, lenders earn income from the transaction fees associated with purchases.

- Christopher Ball, Co-founder of Financial Solutions developer Finch Technologies.

“We work on the Visa and Mastercard rails to enable credit card customers that have a pre-approved credit facility to make payments within the available limit on their credit card. They then pay back the amount over time interest-free. We’re not issuing new credit, we are allowing consumers to use their existing credit in an interest-free way.”

- Alex Forsyth-Thompson, Co-founder of Float

BNPL providers benefit from two primary revenue streams: merchant commissions from retailers, as well as interest rates and penalties applied should the consumer not meet their interest-free payments during the repayment period.

Several BNPL providers, for e.g. South African BNPL firm Float, have partnered with credit providers such as Visa and Mastercard to allow existing, pre-approved consumers to pay for purchases using their existing credit card. This, a new form of BNPL dubbed ‘over-the-top BNPL’, enables consumers to use existing, pre-approved credit to purchase on their existing cards.

Benefits of BNPL model

Monthly Installments

Enables financially responsible behaviour by credit users, as they now only need to settle an instalment amount on their credit cards each month, as opposed to the full amount.

No Added Costs

In contrast to traditional store credit there is no initiation fee, monthly account fee or late payment interest fees.

Guaranteed Repayment

Companies, such as Float, also adopt the risk of collection, from the customer, ensuring guaranteed repayment to the merchant.

“Our job is to be a cashflow tool to help people manage their credit. We are constantly building out our network of merchant and retail partners. This is useful for ‘big card swipe’ items, such as sporting goods, electronics, furniture, and luxury fashion, which usually get people into trouble,”

- According to Forsyth-Thomspon

Growth of BNPL in South Africa on the upswing

April 2022 report by Research and Markets shows that

On the back of surged demand for BNPL products in South Africa in recent months

The study further anticipates gross merchandise value attributed to BNPL sales to increase from US$ 231.6 million in 2021 to reach US$ 4797.9 million by 2028, while CAGR of 48% is expected in the sector between 2022 and 2028.

BNPL payments in South Africa are expected to grow by 97.5%

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457.3 m

by the end of **2022**

Buy Now Pay Later

Global BNPL platforms looking to enter an SA market:

- Australia-based global BNPL firm Zip acquired South African BNPL platform Payflex,
- Adumo's partnership with TymeBank including the MoreTyme BNPL payment offering
- Mauritian financial services provider Weaver acquired an 85% stake in Cape Town-based fintech startup PayJustNow as it targets ongoing growth in the BNPL space

"Payflex CEO Paul Behrmann told Techreport in March 2022 that Payflex's online merchants – primarily small and medium-sizes business - are achieving up to 30% higher average order values on the BNPL platform, with consumers making larger purchases and thus driving significant revenue increases." **- Paul Behrmann**

The Buy-Now Pay-Later model

According to Ball, interest-free instalments on consumer purchases should drive up the demand for goods. Despite this increased demand, the supply of goods will remain the same – at least initially – thus driving up prices and, consequently, inflation.

Ancillary potential impacts of growing BNPL, such as inflation and its broader impact on the e-commerce and payments market, also emphasize the need for adequate oversight of the market by credit agencies.

However, for this to hold true, BNPL would have to be at such a scale that its impact on demand is significant in relation to the total supply of goods. In other words. BNPL would have to be a significant player in the payment space.

"While the aim of BNPL is to enable responsible consumerism, it is important that lenders report BNPL-related data to the credit agencies, as any type of unchecked consumerism can have dire consequences," cautions Forsyth-Thompson.

Finch Technologies at the forefront

A pioneering South African financial product developer, Finch Technologies endeavours to create a healthy and financially inclusive population across Africa by providing scalable, flexible, and modular technology.

Finch routinely works with traditional and alternative lending businesses, providing data acquisition and Know-Your-Customer tools for risk mitigation.