Agpaytech's Research
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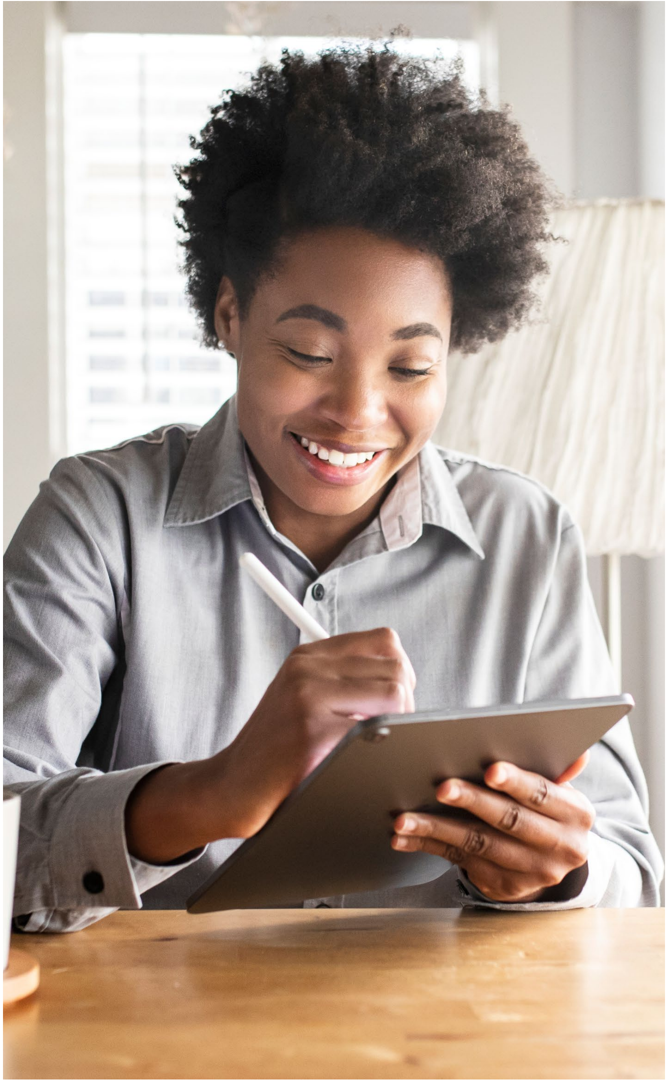
Buy Now Pay Later In Africa:
Is it the Right Time for Fintech to Adopt?

Agpaytech

Executive Summary



While the idea of facilitating installment payments is not new, e-commerce and fintech revolution have contributed significantly in transforming Buy Now Pay Later (BNPL) into what it is today. For consumers it's convenience through a streamlined, low-friction, integrated check-out experience, whereas for merchants is boosting conversion rates and average order value. But with the current economic crisis amidst of rising public debt reaching record levels, especially in Africa, 60% of the world economy is facing debt settlement challenges.

Besides the galloping inflation of goods and services, exchange rate, unbearable interest rate and COVID-19 pandemic impact on consumer spending abilities can Fintechs provide unique credit access and relief to consumers in an innovative way BNPL. The BNPL provides consumption relief to individuals to enable them to buy basic needs and have enough time to pay them without interest. Unlike traditional banks, the BNPL involves less process, 24/7, and without interest. BNPL as a whole still holds a tiny market share of global e-commerce (around 3%). This is poised to increase. According to Juniper Research, the number of BNPL users will surpass 900 million globally by 2027.

In this debt-distressing moment in most African countries, the Fintech BNPL is bridging the credit access gap between the merchant and consumers. Although there are a lot of regulatory concerns, the BNPL is new in Africa and sustainability depends on the users' behaviour. This report examines the BNPL model in the African market, potential challenges, risk, timing, and its market focus of it.

Keywords: Buy Now Pay Later, e-commerce, Fintech, public debt, merchant, Africa

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Introduction

Buy Now Pay Later (BNPL) is a consumer credit and an increasingly popular fintech-enabled payment option that provides financial support for users to purchase products that they cannot pay for it instantly. Fintechs are offering a buy now pay later solution that enables customers to purchase daily essential goods and services by choosing an affordable payment support plan and repay in installments instead of paying for the entire commodity at a time without interest. The BNPL allows individuals to purchase a product such as groceries, clothes, electronic devices, home products, pay school fees, etc. It is like a point-of-sale installment loan or online process that permits consumers to make the purchase of the products and manages the reimbursement.

BNPL is commonly seen in the United States, and Europe with a high number of Fintechs, merchants, and consumers offering different payment options. According to Allied Market Research, the global BNPL market stood at $90.69 billion in 2020. The market is expected to hit $3.98 trillion by 2030. Big-tech BNPL companies like Apple, Klarna, Affirm, etc., let shoppers defer payments to a later date or break up purchases into interest-free installments. In Africa, BNPL providers are springing up. From PayQart and Carbon Zero in Nigeria to Julla, LayUp, Payflex and PayJustNow in South Africa, Paveleon in Ghana, and Kenya's Lipa Later, these providers are making efforts to sustain the rising interest in consumer credit financing.

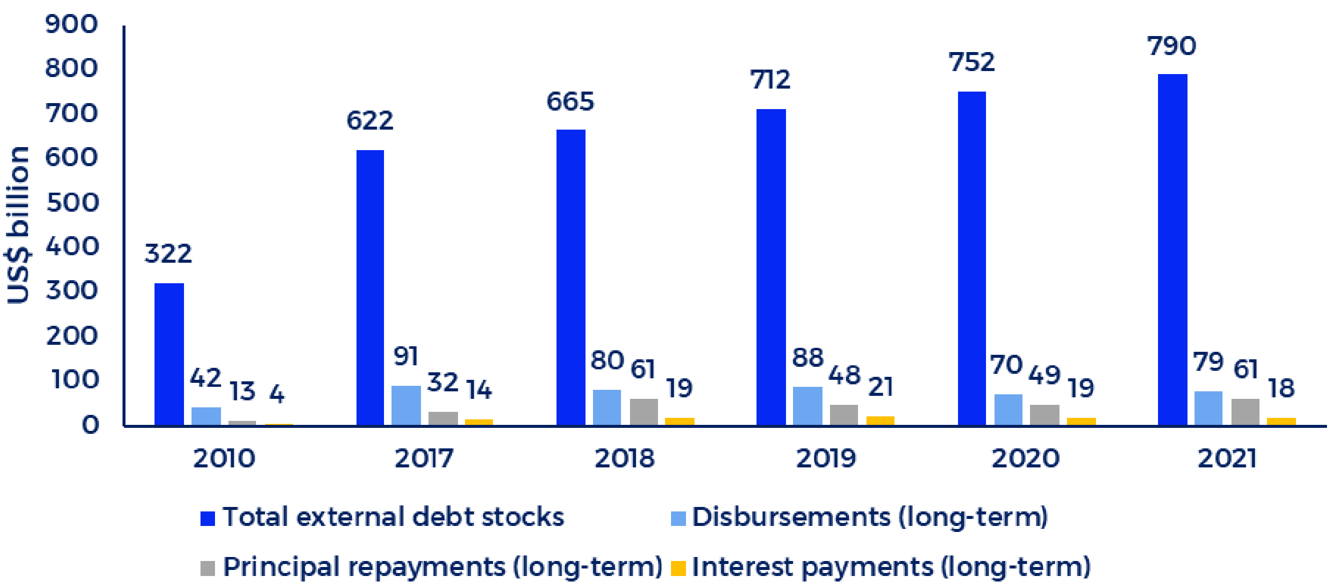
While it is new in the African continent, BNPL in Africa and the Middle East is expected to grow by 99.8% on an annual basis to reach $7.2 billion by the end of 2022 (PAYNXT360). This is largely due to an increase in e-commerce penetration along with the impact of the economic slowdown caused by the Covid-19 outbreak, the Russia-Ukraine War, the high debt crisis, and the recent surge in inflation.

Will a Debt Distressing Countries in Africa Adopt BNPL?

Public debt reached record levels during the pandemic, in both advanced economies and low- and middle-income countries. Nevertheless, the global debt remained nearly 19% of GDP above pre-pandemic levels at the end of 2021, posing challenges for policymakers all over the world. For the poorest and most fragile countries, high fiscal and debt vulnerabilities undermined macroeconomic stability, and affect the standard of living and individual spending abilities (World Bank Debt Report, 2022). Today, 60% of the countries eligible for the Debt Service Suspension Initiative (DSSI) are assessed at high risk of debt distress or are already in debt distress. In Sub-Saharan Africa (SSA) countries, total debt ratios continued to increase in 2021, driven by higher private debt, COVID-19, the Ukraine-Russia war, inflation and other poor economic policies.

In poorer countries and worsening economies, BNPL will have high consumer appeal because it will help people stretch their budgets and shield them from interest payments unlike bank borrowing, and other sources of credit access. The BNPL will provide consumption relief to individuals to enable them to buy basic needs and have enough time to pay them without interest. It is therefore believed that BNPL will have a positive association with individuals living in debt-distressed countries.

Figure 1: Sub-Saharan Africa external debt data (2010-2021)



Source: World Bank Debt Report (2022)

Banks and MNOs Compete in BNPL

Fintech BNPL players continue to charge forward in the absence of meaningful competition from traditional credit providers. As a result of the proliferation of providers and their appetite for growth, further consolidation via mergers and acquisitions is inevitable. Although, banks provide loans and overdraft financial services to their customers with interest repayment at an agreed time BNPL is an avenue to expand their business lines for more revenue and increase market share. Similarly, Mobile Network Operators (MNOs) offer quick mobile loans usually to their subscribers of good credit history with an interest of over a period of 30 days, attracting default repayment interest. However, banks' and MNOs' entrance into BNPL could bring more stability, and security to the sector due to their large capital base, public trust, and market share. As often seen, the BNPL market has been dominated by Fintech startups, with less robust vetting and credit history, thereby banks and MNOs corporations in the BNPL sector can help consumers to accept the initiative with ease.

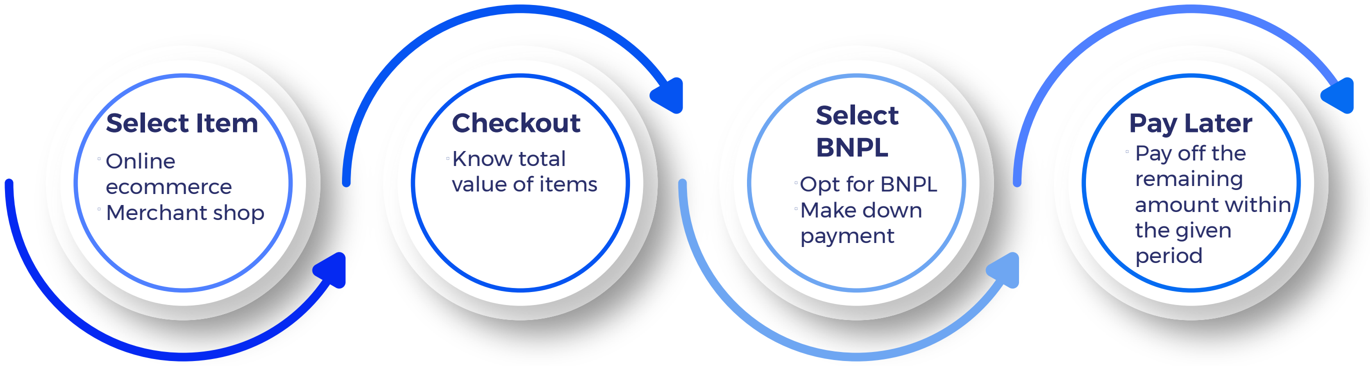
Another reason for Banks and MNOs to compete in today's BNPL is regulatory issues. Currently, the BNPL financing model lacks adequate regulation and legislation even in Western countries. While banks and MNOs are already guided by appropriate regulatory guidelines, expanding the business lines is easier as compared to new Fintechs.

For banks, BNPL embedded into cards or as a standalone product represents an opportunity to promote financial well-being and help their customers optimize their finances via responsible lending. With consumers looking to reduce interest payments at this time of rising inflation and interest rates, BNPL could be a compelling way for banks to expand their product set. The benefit for banks and MNOs to engage in BNPL is that it allows the banks or MNOs to provide a solution that is at risk of being disintermediated by Fintech lenders.

BNPL Process

Buy Now Pay Later aims for frictionless payments, reduced fraud, and maximum buying power at the point of purchase. It follows a simple process where the consumer visits an online shop (e-commerce) or a physical retailer or wholesaler's (must be a merchant of BNPL) store. He or she selects items of choice and opts for BNPL at the point of sale. In most cases, the buyer is requested to pay about 25% of the total value whereas the Fintech operating BNPL takes care of the rest. The consumer or buyer is then given enough time (maybe 30 days) to pay the amount due in a series of interest-free-instalments. It is important to note that not all purchases may be subject to BNPL, or there may be limits on the amount of deferred payment financing, it is, therefore, necessary to check the terms and conditions of the BNPL process before signing up.

Figure 2: The BNPL process

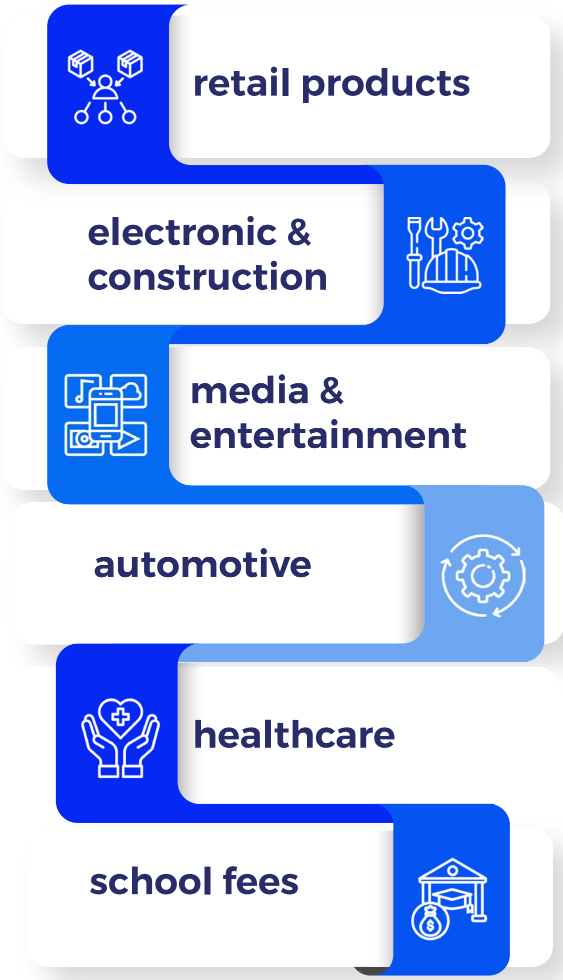


Source: Agpaytech

Buy Now Pay Later Market Focus

BNPL payments are a fast-growing choice among startups and existing merchants and have now attracted even mobile service operators, as populations in Africa look for ways to manage their tight budgets. Currently, most BNPL covers retail products, media & entertainment, healthcare, automotive, electronic & construction materials, school fees, etc. In each case, the mode of payment takes place in two major forms; online/digital platforms and at merchant/retailer point of sale (POS).

Figure 3: BNPL market segment



Source: Agpaytech

Online BNPL

The increasing number of e-commerce platforms and rising service adoption across the millennials in many countries is fueling the buy now pay later market growth. Currently, digital platforms in the area of retail, bank, healthcare, insurance sectors, and transport services are adopting the BNPL to facilitate their customers' finance. Other BNPL players are investing in developing advanced BNPL applications to integrate with an online business to adopt the buy now pay later model. In the BNPL online payment option, consumers request to pay later alongside other purchase options like credit or debit card, mobile money, digital wallet, or bank, make a down payment of an agreed percentage of the total value, and their Fintech lenders approve the loan request after considering the customer credit history and other verifications.

Point of Sale BNPL

With the BNPL at the point of sale (POS), consumers order a physical or virtual card from BNPL providers that allow them to buy now and pay later from retailers. While most BNPL options are offered online, consumers can generate (Quick Response) QR code within their BNPL app, and the merchant or retailer can scan the code at POS. The retailer or merchant gets the credit and the customer settles with the Lender later often without interest.

Leading Players in the Buy Now Pay Later Market

The buy now pay later industry is highly fragmented. However, with growth of start-ups and new venture launches the competition is gradually intensifying. The BNPL leaders in the market include Klarna, PayPal, Zip, Paytm, Afterpay, and Affirm. Furthermore, in 2023, Apple Pay is expected to be a new entrant in BNPL space by relaunching Apple Pay Later payment service as a part of Apple Wallet mobile wallet solution, thereby increasing the market competition among the BNPL app vendors.

Worldwide

Africa

According to C+R Research, the overall 71% of consumers surveyed say that during the pandemic, they have been making more online purchases. In fact, roughly two-thirds (67%) say “more than half” of their shopping was done online during the last year.

Table 1: Buy Now Pay Later & Covid-19

	Most common types of purchases during Covid-19	
51% have used a BNPL service during the COVID-19.	Clothing	47%
	Electronics	44%
	Furniture	32%
	Appliances	29%
	Housewares	23%
	Cosmetics	22%
59% say they purchased an item that they otherwise couldn’t afford.	Food & Drink	20%
	Entertainment	15%
	Exercise/Sports equipment	14%
	Accessories/Jewelry	12%

Source: C+R Research

What factors will influence BNPL in Africa?

Increase in Fintech startups and funding

Fintech sector in Africa has been involved in several business models such as mobile and digital payment, digital investment, alternative lending, and alternative funding. Such diverse activities have received huge financial support.

Increase in Fintech fund

According to Fintech Global Research, the total number of Fintech investors in Africa during the first three quarters of 2022 reached 414 individual investors, a 12% increase from the same period the previous year. The total number of funding rounds participated in by FinTech investors also.

Digital payment platforms

Africa is witnessing an increase in mobile payment, debit card, credit card and online payment, providing many payment benefits such as reducing transactional cost and delays, streamlining fund transfer (bank-mobile phone), security and trust.

Increase in adoption of smartphone

The surge adoption of smartphone usage with greater awareness and experience in mobile applications will boost the operationalization of BNPL. Statista estimated that 89% of web traffic was generated via smartphones and only 10 percent via PC devices.

Improvement in ecommerce trade

Business-to-business (B2B) trade and e-commerce have contributed greatly to business growth in Africa. Online stores have improved the accessibility of African products to global buyers, giving African businesses and entrepreneurs greater recognition and attracting venture capitalists to the region.

Faster internet connectivity

The use of the internet has evolved rapidly in Africa. The continent had around 570 million internet users in 2022, a number that more than doubled compared to 2015. Nigeria, the most populous African country, concentrates the largest number of users. These amounted to over 100 million in 2022, followed by 76 million in Egypt and 41 million in South Africa.

BNPL Business Models and Revenue Generation

The BNPL business model comprises payment lenders usually Fintech, banks or MNO companies; merchants or retailers, technology service providers (TSP) and consumers. The market segment varies from country to country but mostly includes retail trade either in e-commerce stores or physical shops, healthcare, education, the car industry, and other wholesale trade activities. In many cases of BNPL arrangements, consumer payments carry no interest, but instead, the consumer incurs fees in addition to the sale amount or late payment fees.

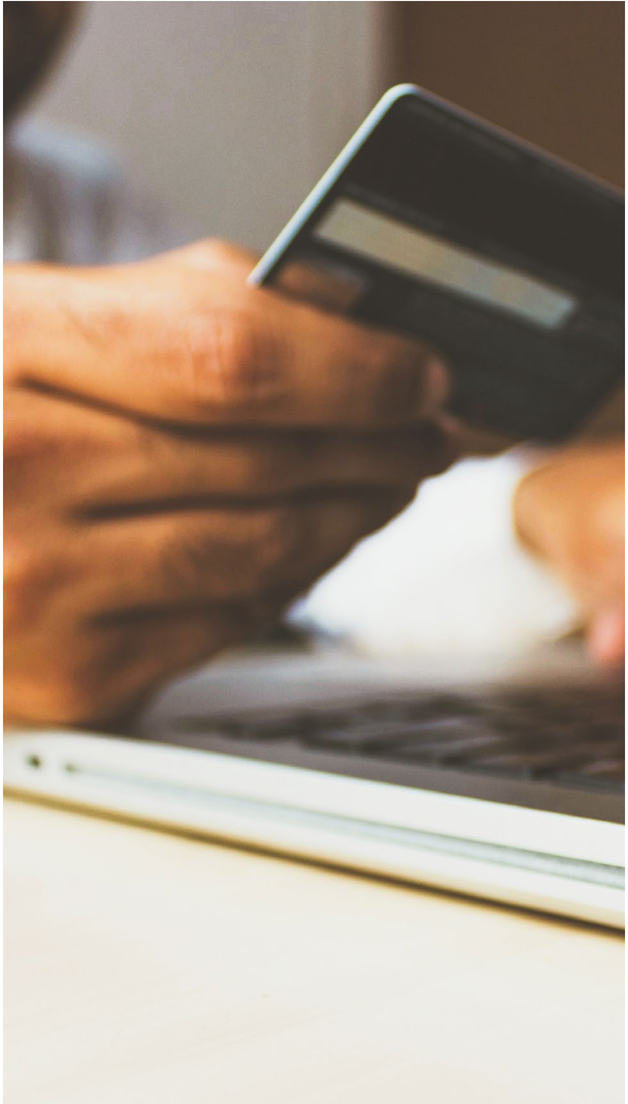


Figure 4: BNPL business components

Key Partners

- Payment lenders
- Merchants (E-com/ POS platforms)

Key Activity

- POS lending
  - Product development
  - Global opportunities

Key Resources

- Brand Value
- Merchant relationship

Value Proposition

- Flexibility
- Conversion rate
- Average order value
- Retention

Customer Relationships

- Loyalty and reward program
- Flexible payment

Channel

- Merchant checkout
- Card linked installments

Customer Segment

- Early phases: Millenials and Gen Z
- Evolved phase: Gen x
- Merchant

Cost Structure

- Technology development and customer appreciation
- Regulatory and compliance fees

Revenue stream

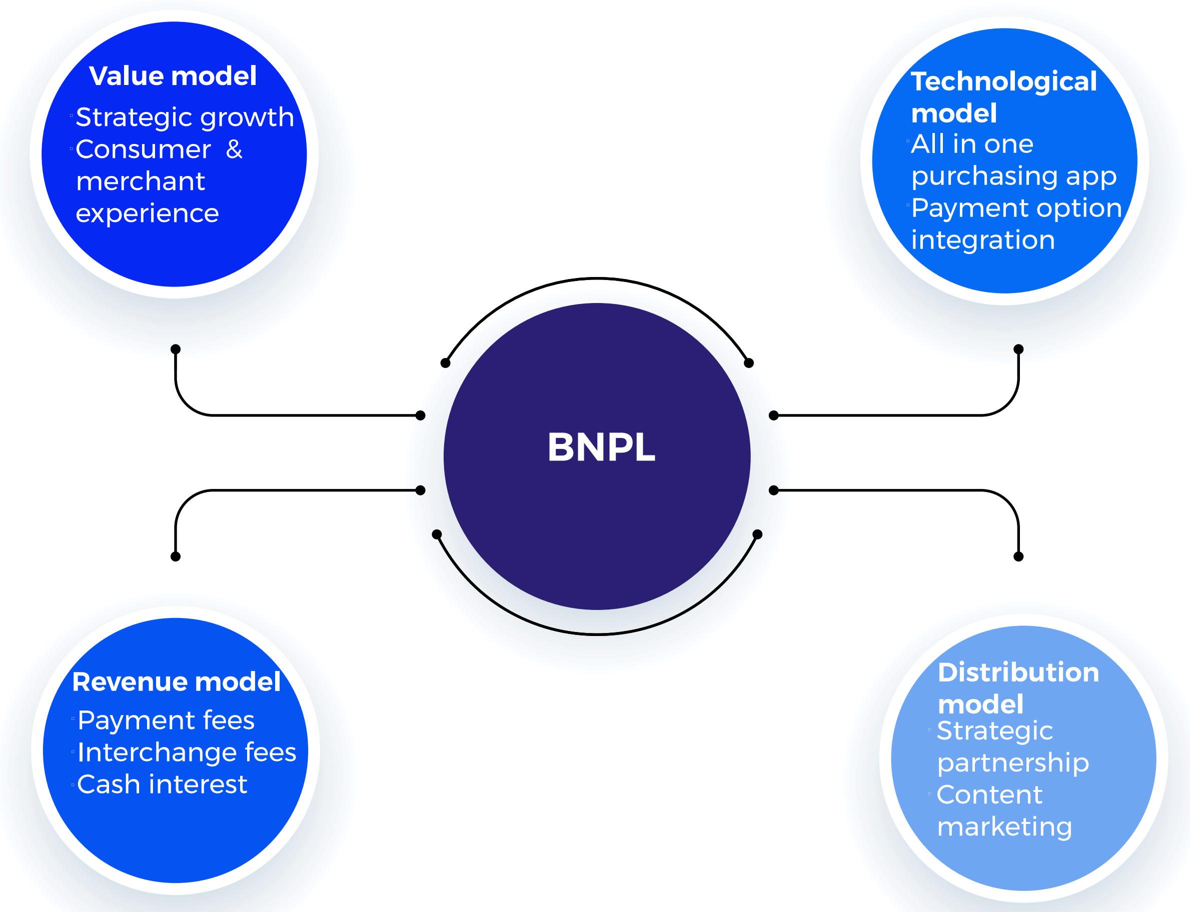
- Merchant fees
- Late payment fees

Source: Agpaytech

How BNPL Generates Revenue

Most BNPL firms make money by charging merchant fees, interest on its consumer loan business, and late fees on loan repayments. The company also makes considerable income through its cash-on-interest model and interchange fees. Sometimes, BNPL companies are likely to make big losses due to default on loan repayment, death and other technical challenges. For instance, Klarna's net loss widened significantly in 2021, due in part to increased credit loss rates. Klarna has rapidly entered new geographic markets (to which it attributes some of its profitability challenges) and has made 12 acquisitions over the past 5 years. Continued losses at Klarna and others (e.g., Afterpay's losses also widened prior to its acquisition by Block) have prompted many observers to question the fundamental economics of the model. Critics argue that the high approval rates necessary to gain adoption lead to high credit losses, and that fintech cannot prop up the necessary costs of funding to achieve sustainable margins. As a result, critics argue that effective interest rates become unreasonably high for consumers and that BNPL providers' customer acquisition and operating costs are too high relative to small loan amounts.

Figure 5: BNPL model with revenue components



Source: Agpaytech

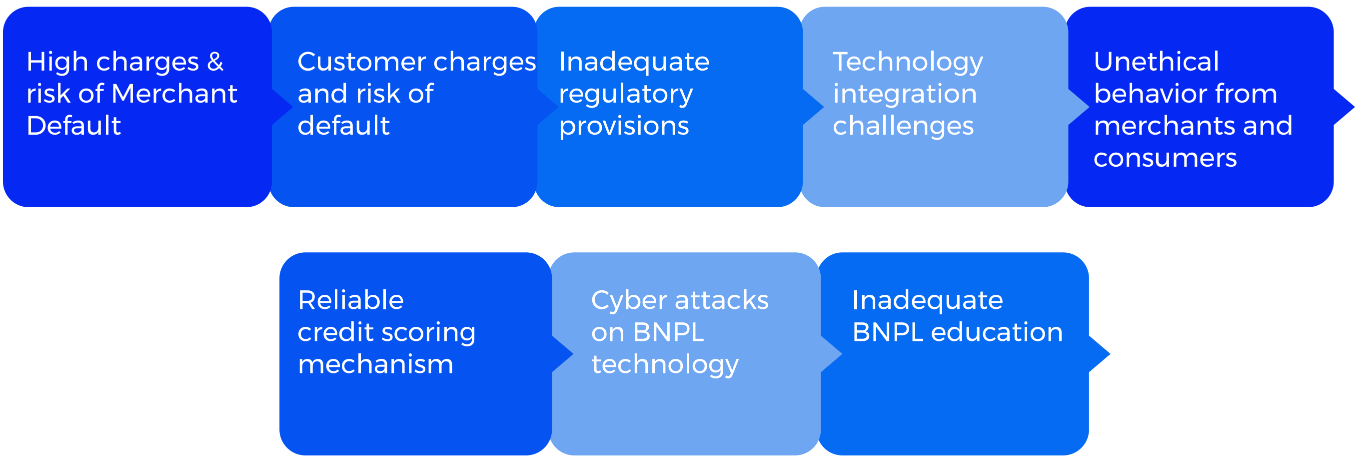
Key Challenges of BNPL

While the BNPL holds promising credit facilities to consumers, there are complexities in the BNPL process that do not happen with cash. Like traditional banks, and microfinance, the customer's credit history, identification, and loan recovery plan or collateral are key conditions to provide credit access. Similarly, in the BNPL, the customer might not be qualified to assess credit for purchase (pay later option), and it's impossible to offer every customer "Pay Later" due to certain conditions that need to be fulfilled.

BNPL providers charge merchants (6%, 3%, or fixed merchant fees) and consumers, incurring transaction fees as high as the purchase amount. Although BNPL provides merchants with an avenue to give their customers the best shopping and checkout experience, it can be expensive. Similarly, customers are required to pay late (default) loan payment charges. The inability of the customers to repay in the agreed time is likely to compound debt on the BNPL provider as well as on the customer causing several psychological and economic distress.

Besides, Fintech is a category of financial services, and if not appropriately regulated, may be associated with regulatory failure. Debt is rigid and can cause consumer harm. When aggregated, unmanageable debt can cause systemic damage. Yet for an increasing number of BNPL users, and arguably for the financial services system itself, BNPL appears to be generating consumer detriment. A small portion of BNPL companies may be aiming to facilitate socially useful activities, such as the funding of solar panels, but most are not and instead being vehicles of over-consumption.

Figure 6: BNPL challenges



Source: Agpaytech

Risks Related to BNPL

BNPL partners including customers, Fintechs, merchants or retailers face several risks in the buy now pay later market. Despite the market lacking regulatory challenges, merchant risk, customer risk, interest rate risk, and other external risks of cybersecurity could affect the business. A situation whereby many customers are defaulting on late repayment of loans as well as dishonest merchant behavior can put BNPL providers into a huge debt. BNPL players may not always be able to obtain loans from payment facilitators at the desired interest rate.

Table 2: BNPL related risks

Merchant default risk	**Merchant fraud risk**	**Customer default risk**	**Cyber and fraud risk**	**Market risk**
The collapse of a merchant business Death of merchant	Dishonest merchants can falsify orders using fictitious consumer IDs to collect payments Dishonest merchants can be a channel of fraud.	Soft credit checks death of customer Customer falsifying identity	Attack from fraudsters Stolen credentials Default fraudulent chargebacks	Inadequate legislation and regulation to guide or supervise the BNPL in Africa No barrier of entry will jeopardize the BNPL players with fraudsters.

Source: Agpaytech

Conclusion

The pandemic has clearly marked a milestone for the industry with online (and mobile) shopping becoming the new norm and BNPL getting a significant chunk. However, the unexpected macro situation has caught the industry off-guard: a dramatic drop in valuations (Klarna's is down by 86%), an investment shifts from growth to profits and increased regulatory scrutiny. Increased consumer defaults as a result of the negative environment have led to mounting losses for a business that is collateral-free. Record-interest rates are increasingly difficult to pass on to consumers and merchants, reversing one of the model's main growth drivers amidst such an environment many people have been (overly) quick to forecast PayLater's demise.

Despite these challenges, Apaytech expects BNPL to continue growing, as it meets key customer needs for frictionless commerce in Africa and worldwide. As it grows, the BNPL industry will mature and consolidate to a smaller set of more scaled and viable providers, product catalogs will expand to generate new revenue streams, regulation will increase, and the fintech will edge towards becoming more like incumbents (e.g., Klarna is already a bank), and forward-thinking traditional incumbents will regroup and will regain some of the ground that they lost. More merchants and customers and other non-financial institutions are likely to join BNPL Fintechs to enhance financial support to their customer base.

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ISO 20022 Master Rules

About Agpaytech

Agpaytech Ltd. is a company pioneering in the Fintech Space with a focused approach to building robust technologies for eCommerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service White-Label Solution, Foreign Exchange, Cross Border Payments, and digital currency technology. We have partnered with multiple banks, non-banking financial institutions, and corporate organizations to create a solid service delivery model for them and their customers to ease their international remittances and payments concerns. Website: www.agpaytech.co.uk

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