Agpaytech's Research
21st September, 2023

How FinTech is Turning Buy Now Pay Later (BNPL) to Save Now Buy Later

Agpaytech

Buy Now Pay Later vs Save Now Buy Later

With public debt reaching record levels, 60% of the world economy is facing global debt and therefore eligible for the Debt Service Suspension Initiative (DSSI). Meanwhile, the consumer finance market is spearheaded by Fintechs is providing unique credit access and relief to consumers in an innovative way of Buy Now Pay Later (BNPL). The BNPL is an agreement between the consumer and lender (fintech credit provider) for the provision of credit to the consumer to purchase goods or services, with the debt being paid off later by the consumer. 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. In this debt-distressing moment in most African countries, the Fintech BNPL is bridging the credit access gap between the merchant and consumers.

The BNPL is an agreement between the consumer and lender (fintech credit provider) for the provision of credit to the consumer to purchase goods or services, with the debt being paid off later by the consumer

What is the concern?

With rising interest rates, a looming recession, and job losses, people are struggling and squeezed, being more likely to struggle to manage their BNPL payments. According a recent research conducted by the Behavioural Insights Team and the Money Pensions Service (MaPS) in the UK, over half of the surveyed BNPL users (55%) have pending payments, with 33% juggling multiple outstanding bills. This financial fragility is concerning, as it paves the way for a potential debt cycle that could impact the long-term financial well-being of the customers. Around 70% of respondents admitted to utilizing BNPL even when they originally intended to make full upfront payments. This behavioural shift raises concerns about the growing reliance on deferred payments and the possible repercussions on financial stability.

FinTechs Turning Heads on BNPL

Saving money to buy something is not new and almost all financial institutions are aware of this concept. Most financial institutions have a range of features to encourage putting money aside including rules for automatic saving, tools to monitor spending patterns, and goal setting. The challenge has always been how to monetize these savings programs and turn them into revenue-generating endeavors. But FinTech is changing the game, monetizing and adding value to customers' savings. A new payment method centered around saving is turning the concept of Buy Now Pay Later on its head.

FinTechs are leveraging new digital savings experiences to attract and retain deposits. Save Now, Buy Later (SNBL) is a new payment experience where customers create savings plans to make purchases with a merchant in exchange for discounts or rewards. It offers a unique opportunity for revenue growth and differentiation at a critical time for both FinTech startups and traditional retail banks.

With increasing smartphone penetration, and biometric identifications for easy onboarding, as well as the economic looming recession, SNBL can be a less-risky payment method compared to unsecured loans like credit cards BNPL. With SNBL, consumers are also eager to receive personalized, AI-driven financial wellness experiences, creating an opportunity for banks and large data-holding companies like Telecoms to leverage SNBL to differentiate themselves, deepen engagement, and generate growth. Additionally, the competition for deposits has intensified, sharpening the need to find cost-effective ways to give incentives to customers to save.

Save Now Buy Later (SNBL) Business Model

SNBL's business model may constitute two or three approaches depending on the customer's choice and business environment. For model 1 (Connect to Merchant), the subscriber is required to choose a merchant store and products from which to make savings. Model 2 allows subscribers not to connect to any specific merchant but to make savings and choose any products that the amount can fully purchase. Model 3, which is the Save Now Use Later (SNUL) allows the customers to save and buy anything from the merchant stores or withdraw for any personalized activities.

The business concept presents several gamification or incentive approaches to sustain customers such as rewards, discounts, referrals, and cash bearing for Model 3. Moreover, the revenue generation designs include commissions from merchants, entrance or registration fees and other advisory services to merchants, businesses, and customers. The partnership approach is flexible and open to large data holding firms, financial (rural and commercial banks) and non-financial institutions (MNOs, Utility firms) as well as e-commerce (Jumia). Table 1 provides an overview of the whole SNBL model.

Save Now Use Later (SNUL) allows the customers to save and buy anything from the merchant stores or withdraw for any personalized activities.

Table 1: Business model for SNBL

<table>
<tr><th>Activity</th><th colspan="2">Save Now Buy Later</th><th>Save Now Use Later</th></tr>
<tr><td>Model</td><td>Connected to merchant</td><td>Not connected to a merchant</td><td>Personalized activity</td></tr>
<tr><td>Concept</td><td>Save and pay</td><td>Save and buy</td><td>Save pay/withdraw</td></tr>
<tr><td>Rationale</td><td>Savings are linked to specific products or services with a merchant store</td><td>Savings can be used to buy anything from registered merchant stores</td><td>▪ Not linked to a product, merchant, or making a purchase.
▪ Can withdraw for personal use.</td></tr>
<tr><td>Operations</td><td>Online/offline</td><td>Online/offline</td><td>Online/offline</td></tr>
<tr><td>Incentive mechanism</td><td>Cashback approach</td><td>Cashback approach</td><td>Cashback & Interest bearing</td></tr>
<tr><td>Premium design</td><td colspan="3">Institute levels and benefits such as gold, silver, diamond, bronze, etc.</td></tr>
<tr><td rowspan="2">Gamification</td><td>G1</td><td colspan="2">Invite friends for coupons, discounts, gifts, or points that can be used to buy something from a merchant.</td></tr>
<tr><td>G2</td><td colspan="2">Rewards are offered when reaching the desired purchase amount</td></tr>
<tr><td>Target market
KYC</td><td colspan="3">Employees on government or private organizations' payroll
National card, mobile number, bank-affiliated integration</td></tr>
<tr><td rowspan="3">Revenue model</td><td>R1</td><td colspan="2">Commission from merchants upon customer's full payment</td></tr>
<tr><td>R2</td><td colspan="2">Charging merchant entrance fees</td></tr>
<tr><td>R3</td><td colspan="2">Providing advisory services</td></tr>
<tr><td rowspan="2">Partnership firms</td><td>Banks</td><td>NFIs</td><td>E-commerce</td></tr>
<tr><td>Rural and commercial banks, MFI</td><td>MNOs, Telcoms, DSTV</td><td>Jumia, Yango, Uber</td></tr>
</table>

Source: Agpaytech