'New-generation lay-bye' payment solutions gain traction in SA

More and more consumers are looking to 'buy now, pay later' (BNPL) payment options when making purchases.

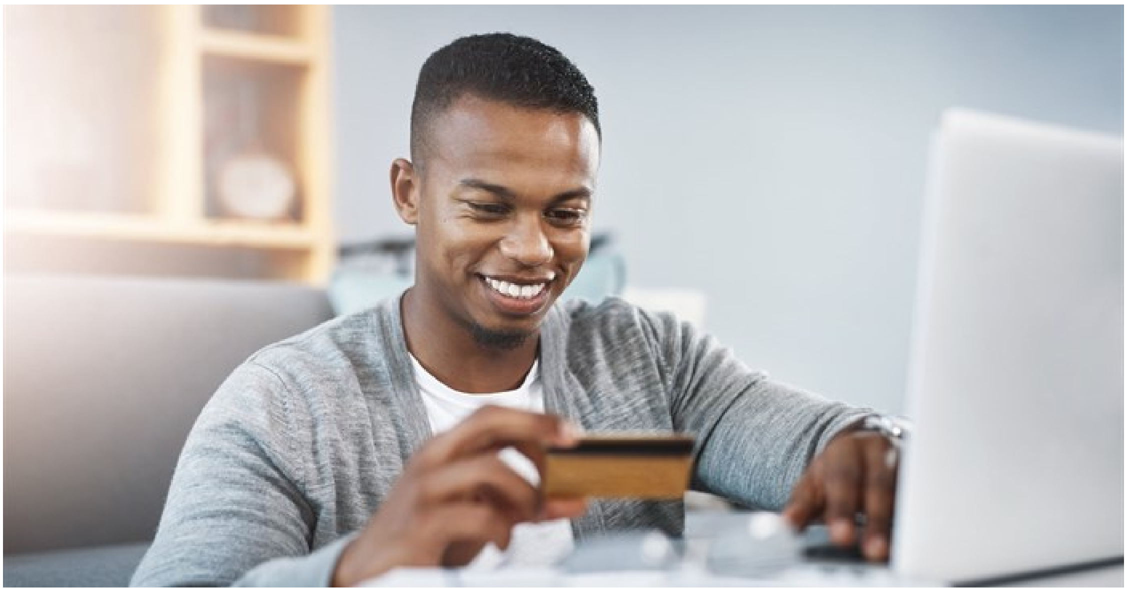

Image source: Gallo/Getty Images.

Over the past five years, BNPL payment solutions have been growing in countries like Australia, China, Sweden and the UK. And its fast-growing traction across the rest of the world including South Africa.

A better way to budget

“Essentially, BNPL services are providing today’s shoppers with a responsible alternative to credit and helping boost retail sales, particularly in sluggish trading conditions. These payment services are becoming an essential part of the modern retailer payment mix, driving increased traffic and higher conversion rates at point-of-sale and allowing businesses to scale with less risk,” explains Greg van der Riet, COO of newly launched, SA-born PayJustNow – which offers shoppers a three-step interest-free instalment service via online partner merchants.

Typically speaking, these businesses conduct credit and identity assessments – with technology that analyses multiple variables – seamlessly and upfront, and with the BNPL companies themselves assuming any non-payment risk. They pay the online retailer and then recoup the purchase price from the customer, charging a spread.

“We charge no interest and no fees to the consumer if they pay on time, instead, we collect a fee from the retailer for the transaction,” explains Van der Riet. Since mid-2016 the number of global customers using BNPL services has risen from 100,000 to over 5.6 million.

With millennials leading the charge, it’s not hard to see why these products have become so successful in this critical market segment. Around 90% tend to avoid interest-bearing credit products by choice due to cost and risks, turning to BNPL payment solutions as a better way to budget for the items they want.

“Acting as a new-generation lay-bye, shoppers benefit from staggered and interest-free instalments and instant gratification – with items being shipped after the first instalment at the time of check-out,” says Van der Riet.

The future of credit

What does it take to qualify? “All you need is to be over 18 years old, a SA citizen and have a debit (or credit card) in good standing,” says Van Der Riet. “Our friction-less automated system will then issue you a credit limit upon sign-up.”

And late fees? “PayJustNow payment terms are specifically structured so to empower shoppers to buy what they want now and pay it off over time, as they earn, with a payday or two in between,” he says.

Van der Riet states that with default rates well below industry standards (largely thanks to algorithm-based tech) and late fees only partially covering these purchases, PayJustNow essentially gains nothing from customers being unable to make payments. The company uses a combination of implicit and explicit data to determine the risk of approving a customer spend limit, with core markers such as online behaviour, social profiles and lifestyle attributes of the product being purchased, amongst other factors.

By 2020, it is estimated that millennials will have the highest spending power globally. With this fact alone we’re looking at the new frontiers in fast finance, consumer payment web apps and data-driven payments strategies.

Consumers are shaping the future of credit – and it's already here!