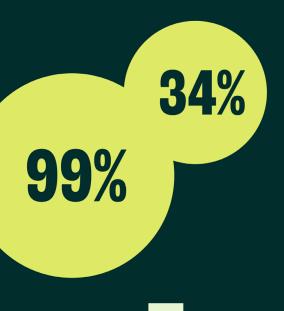
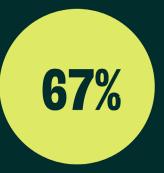
# The Payfast Report State Of Pay Pay

payfast by network

Intro & Methodology	01
Executive Summary - The New State of Pay	02
Merchant Survey Results	03 - 07
Partner Interview: Capitec Pay	08 - 09
Partner Interview: Yebo Fresh	10 - 11
Yebo Fresh Data Insights	12 - 13
Partner Interview: Mukuru	14
Partner Interview: Shopaholic	15
Payfast Data Report	16 - 19
Partner Trends Analysis - Open Commerce Is For Everyone	20
Key Findings	21

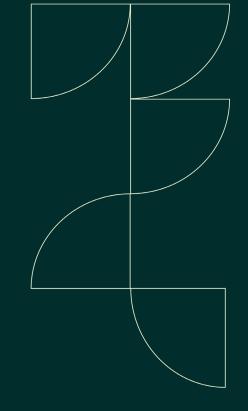




## index

The third annual Payfast Report provides an extensive overview of South Africa's digital payments landscape, heading into 2024.

Leveraging both data and insight from expert partners, the report outlines key predictions for the retail sector and explores the importance of factoring financial inclusion into business growth strategies moving forward.



#### Methodology

The 2023 Payfast Report is based on the following:



#### **Anonymised payment data**

collected from the Payfast engine from 1 September 2022 to 31 August 2023



#### **Anonymised buyer data**

collected from the Payfast engine from 1 September 2022 to 31 August 2023



#### An online survey

conducted with Payfast merchants in September 2023



#### In-depth interviews

with industry experts within the Payfast ecosystem conducted in September and October 2023 – including Capitec, Mukuru, Yebo Fresh, and The Shopaholic.

## The new state of pay

The ecommerce industry has entered a new era in South Africa where to continue growing, we need to open up the online economy to those who were previously excluded. In this year's Payfast Report, we dive into the country's state of pay, to evaluate the most important trend in the payments industry to date – financial inclusion.

By Brendon Williamson, Managing Director of Payfast



Financial inclusion is a big concept that has been used as an industry buzzword and marketing term for a while now. Considering the research and expert interviews conducted for this report, we believe that real financial inclusion is on the horizon, provided all players in the ecosystem are prepared to work together towards a common goal.

One of the key takeaways of this year's report is the impressive size of the opportunity that awaits those who are ready to take the leap and invest in expanding their reach. Between the country's 19-million underbanked individuals and the R260-billion value of the township economy – we're standing on the precipice of an exciting transition. With the proliferation of digitised cash offerings, digital wallets, and accessible transactions through feature phones or WhatsApp, there is no excuse to not be planning on how to include this market segment.

To provide analysis of the data collected and insight into the state of pay, we've curated input from a collection of Payfast partners – each of them experts and innovators in their respective fields. Together, we unpack the building blocks of financial inclusion, including open commerce, open banking, and the role of technology-based solutions.

As part of our merchant survey, we asked whether local businesses saw open commerce as an opportunity to grow their business. Fifty-six percent believe it's too early to say what kind of impact they think it will have. With this report, we've begun to answer this question. While entrepreneurs and big brands alike continue to battle the impact of loadshedding and rising interest rates, it's critical that they keep an eye on the future and the new opportunities open commerce offers – because the impact is going to be huge.

Where our previous reports have largely been looking back on trends of the year past, this year's report does something a little different. We've focused our efforts on unpacking what we believe to be the next frontier in payments. Financial inclusion is more than just a trend, it's an essential step forward for the industry, and our country as a whole.



While entrepreneurs and big brands alike continue to battle the impact of loadshedding and rising interest rates, it's critical that they keep an eye on the future and the new opportunities open commerce offers – because the impact is going to be huge.

## Merchants make space for payment innovation

In September 2023, Payfast released a survey to our merchant database, to understand how they are adapting to and preparing for innovation in the industry – and gain in-depth insight into the current state of pay in South Africa. Here's what we discovered:

38%

of merchants saw an increase in online sales during 2023, compared to 2022.

This comes despite facing ongoing uncertainty this year, amid challenges like loadshedding, interest rate hikes, and dealing with natural disasters.

2022 2023



Most fall in the SME sector,

84%

have less than 10 employees

Top 5 challenges faced by merchants



Loadshedding

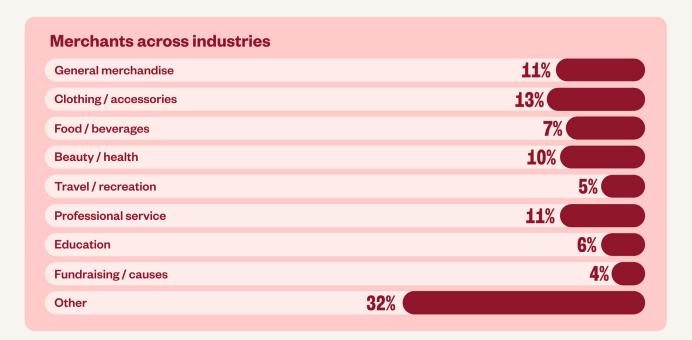
67%

38%
Increase in interest rates

33%
Declining sales

19%
Disruptions to supply chain

47%
Cash flow concerns



### Open commerce

refers to driving financial inclusion in the ecommerce sector, by making it more accessible to previously underserved communities. We see this as the next frontier in payments.

When asked if open commerce represents an opportunity to grow their business:

**45**% Yes

**39%** Undecided

**12%** No

Why do merchants see open commerce as an opportunity?



30%

It gives me access to more consumers



11%

It opens up opportunities for new business



10%

It enables me to expand my service or product offering

R537.00



**49%** 

All of the above

#### Reservations regarding open commerce

25% 3

Of merchants said that they don't understand open commerce yet. 56%

believe it's too early to say what kind of impact they think open commerce will have, preferring to wait until the concept is more developed. 14%

said it isn't relevant to their business.

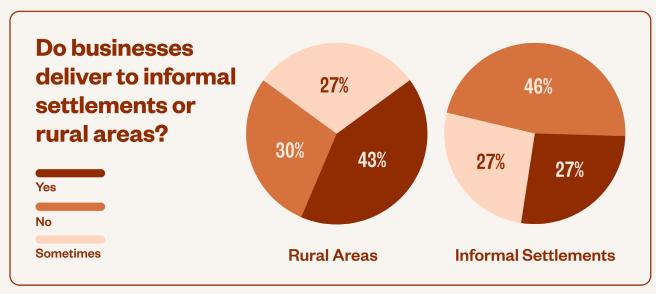


One way for merchants to reach new consumer segments is to open up doorstep delivery or pick-up points in areas outside of key metros.

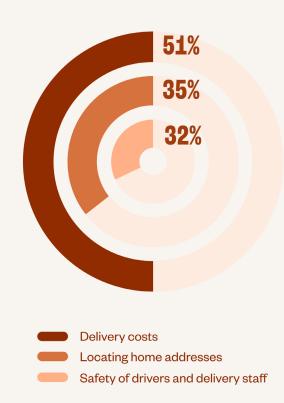
## Driving ecommerce innovation

We are investing in the future of payments, by developing new products and services that make open commerce more accessible – and more relevant – for our merchants. Payfast's vision is to guide South Africa's ecommerce industry into the next stage of its evolution.





## Top 3 hurdles business face in delivering to these areas



Main reason that most merchants don't deliver to these areas:

33%
They don't

They don't see enough demand

**56%** 

Not the right target market for their products

80%

of merchants don't plan to introduce delivery into these areas at all in the near future.



•

11%

of merchants plan to introduce delivery to informal settlements and rural areas within the next year.

#### An opportunity for merchants



We've seen the rapid rise of a middle class in townships. There's a massive trend towards people wanting to shop close to home, skipping the Saturday taxi trip to the mall. We believe every business operating in South Africa should have a township strategy.

Jessica Boonstra, CEO and Founder at Yebo Fresh

#### **Disruption** is coming

We know that sentiment towards township and rural delivery is going to change. As innovations in tech and payments remove friction from cash-to-digital transactions, more and more merchants will be able to unlock the potential of this customer base.

Introducing a broader range of payment methods is another way to include more consumers within the digital economy.

#### Online payment methods offered by merchants







As we head towards Black Friday and the festive season, our merchants are feeling overwhelmingly positive. With positive sentiment tracked at 61% versus 33% neutral and 6% negative.

**73**%

of merchants say the main reason they offer Buy Now Pay Later (BNPL) is that it allows more consumers to purchase from their online store.

of merchants have always offered cash as a payment method.

#### **Omnichannel VS** ecommerce only

34%

of merchants use both ecommerce and a point-of-sale device to make sales.

32%

of merchants have both a physical outlet and online store.

of merchants use ecommerce only.



## Open banking - the building blocks of financial inclusion

In February 2023, Capitec launched Capitec Pay – the first bank-endorsed online shopping payment method in South Africa that allows clients to make safe and card-free payments, using a cellphone, bank account, or ID number. Since then, they have tracked **over three-million distinct Capitec Pay users**. Up to 8 900 merchants are trading every day, processing over **12-million open banking transactions a month** on Capitec Pay.

In conversation with Jerome Passmore, Head of Capitec
Pay and Busi Radebe, Head of Electronic Payments



#### **Defining open banking**

**Jerome:** At its core, open banking is about providing a seamless and safe payment experience. In layman's terms, it involves banks sharing financial and client data directly with third parties – like fintechs and merchants – in a secure and mutually agreed way (and only when authorised by the consumer).

**Busi:** It's like a game of Lego – where all the pieces fit together in a standardised way, to produce an overall solution. The aim is to bring more people into the online economy by removing friction from digital transactions.

#### **Making security seamless**

**Jerome:** The key benefit of open banking is that it's more secure than traditional methods like cards and Instant EFT. Open banking allows third parties to initiate payment requests directly to a consumer, removing the need to share card details or usernames and passwords.

**Busi:** As a merchant, you want to offer trust as a key value proposition. With open banking, you can offer your customers end-to-end encrypted payments that are entirely risk-free. This is especially important when it comes to accessing previously underserved segments, who are still learning to trust the safety of digital transactions.

By lowering the cost of acquiring the transaction, every person on the payments value chain stands to gain something, including the merchant and payment service provider.

#### **Innovating for financial inclusion**

Jerome: For us, real financial inclusion means access to financial services – like insurance, savings options, and digital transactions – regardless of whether a consumer has a digital wallet or bank account. By facilitating mobile-only users' access to online payments, open banking reduces the need for credit cards and provides consumers with more payment choices. It also empowers small businesses with alternative ways to accept payments that are secure, bank-endorsed, and far more economical than trying to qualify for a card acceptance method.

#### Liberating financial data

**Busi:** Open banking isn't limited to payments; it will revolutionise access to financial data, providing a secure way for third parties to access and use data (such as transaction history) responsibly and with user consent. This simplifies processes like providing bank statements for financial transactions – for people who have to take a taxi and get off work to visit a physical branch and print out hard copies, it means saving both time and money.

**Jerome:** In open banking, there are no losers – only winners. Every person on the value chain stands to gain something from being involved. Right now, we are only on the cusp of the level of innovation and disruption that open banking offers. From our perspective, the world of alternative



As a merchant, you want to offer trust as a key value proposition. With open banking, you can offer your customers end-to-end encrypted payments that are entirely risk-free. This is especially important when it comes to accessing previously underserved segments, who are still learning to trust the safety of digital transactions.





Launched in 2001, Capitec is South Africa's leading digital bank with over 20-million retail banking clients. They have also been awarded the titles of "Coolest Bank", and "Coolest Savings and Investment Platform" in 2023. They currently have more than 850 branches and over 14 000 employees serving South Africans.

#### The kasi ecommerce revolution is coming

Up to one-third of South Africa's population lives in townships, where an estimated half a million entrepreneurs contribute to a combined value of about R260-billion annually – a figure that is set to grow by 23% year-on-year. Despite the obvious size of this opportunity, a huge gap in service delivery still exists in this market.



In conversation with the Yebo Fresh team, including **Jessica Boonstra**, **Founder and CEO**, **Kgosi Tshoagong**, **Commercial Director**, and **Thandeka Khumalo**, **Head of Data Analytics and Strategy**, we look how merchants can expand their footprint to grow their business – and help foster financial inclusion.

#### Leading the transition

**Jessica:** Some of the spaza shops we work with see up to 1000 transactions a day, these are mostly small cash amounts. We know that cash on hand makes merchants vulnerable to theft and fraud. One of the reasons why we advocate for technology-driven solutions is that they offer a safer, more streamlined way to store money.

**Kgosi:** As an industry, we need to initiate a behavioural and sentiment shift, through education and trust-building. The infrastructure to transact and store money digitally is already in place – 97% of our merchants have smartphones – all they need is a gentle nudge forward.

**Thandeka:** Now is the time to get in, get your hands dirty, and be a part of the building process – because there will come a time, very soon, when you won't be able to ignore this market if you want to grow your business.

#### Setting up shop

**Jessica:** When you enter this market, you need to speak a different language, and you need to have a different distribution strategy. You can't do a simple copy and paste of what you're doing in the upper-income markets.

**Kgosi:** Respect for the consumer and merchant is key. For us, that means partnering with community members to empower existing local structures – rather than bypassing them and competing with entrepreneurs.

**Thandeka:** You have to play within the infrastructure. Even big brands, if they want to meet the customer where they're at, need to be operating on WhatsApp – whether the customer is ordering a kota or something bigger. You can't turn their world upside down overnight with new tech, it needs to be incremental.

#### **Money misconceptions**

**Jessica:** In the past, this market was looked at as a place for charity, not business. As a result, there is a misconception that people in this segment are not critical consumers - they are. The reality is, they are way more sensitive to the quality of products than the upper market.

**Thandeka:** This customer spends money very deliberately. If they are only able to buy five onions – they will make sure to buy five perfect onions. Sending cheap, low-quality products into the market doesn't work.

**Kgosi:** As someone who grew up in these areas, it's important for us that anyone who enters and invests in this market does so responsibly. We have an opportunity to bring this market into the digital economy – and prove that good business can go hand in hand with doing good.



Now is the time to get in, get your hands dirty, and be a part of the building process – because there will come a time, very soon, when you won't be able to ignore this market if you want to grow your business.





Yebo Fresh is an award-winning ecommerce platform on a mission to provide township entrepreneurs and community organisations ease of access to high-quality goods and services through their smart technology. The company now operates in more than 25 major townships across Cape Town and Johannesburg, and has taken on more than 5 300 entrepreneurs and community organisations as customers.

#### Understanding the kasi economy

Insights based on a portion of surveyed South African-owned township entrepreneurs for the Yebo Fresh Business Lab



Market size and value

200 000

(R152-billion)

Small supermarkets and spaza shops

95 000

(R76-billion)

Fast food restaurants and taverns selling food



100 000

(R19-billion)

Hair/nail salons and barber shops

**150 000** 

(R57-billion)

Fruit and vegetable sellers

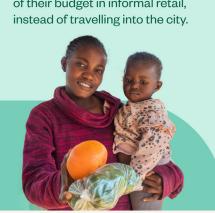
#### **Customers of Yebo Fresh**

47%0

of active customers have used the **Buy Now Pay Later** system Male

Locals are tired of the taxi trip, spending

of their budget in informal retail,



Top three nationalities in the townships where Yebo Fresh operates:



Ethiopian

Bangladesh



South African

#### Yebo Fresh entrepreneur insights



#### **Cape Town**

44%

Unbanked entrepreneurs

Most popular bank

- **Capitec Bank** with a share of

45%



#### **Johannesburg**

35%

Unbanked entrepreneurs

Most popular bank - **FNB** with a share of

27%

#### Following the money

Beauty salons, restaurants and shisanyama

are the most lucrative sectors in townships across Cape Town and Johannesburg.

The majority of spaza shops in both cities generate between

R5 000 and R10 000 in revenue per month.

A considerable number of restaurants generate above R20 000 per month in revenue.

#### **Smartphones**

An overwhelming majority of township entrepreneurs use smartphones,

with only 3.4% indicating that they use a basic phone with no technology or internet services.

68% **①** 

of those with smartphones, reported not using any tech tools for their business.

This gives an indication of the size of the untapped market that could potentially be the entry way for further advancement of technology in the townships.

Android smartphones are most used by entrepreneurs

Johannesburg

84%

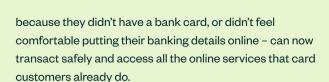
Cape Town

71%

The tipping point for financial inclusion

There are at least 19-million underbanked individuals in South Africa, and more than 1-million micro, small, and medium-sized enterprises (MSMEs) making cash-only transactions.

This offers a glimpse into the scale of financial exclusion in the country – and highlights the opportunity for those who are ready to engage with this underserved segment to bring them online.



#### Juan Seco, Chief Growth Officer at

**Mukuru** explains how the innovations in the payments sector are set to accelerate financial inclusion over the next five years.

#### The digitisation journey

For us, the first step in the journey to real financial inclusion is digital payment adoption for both merchants and customers. To encourage this, we need to create a transition from cash to digital currency that isn't too foreign from what customers are already familiar with – while providing an incentive to merchants (like removing the high costs associated with cash handling). This builds trust and lays the foundation for customers to later engage with additional offerings, like digital wallets, cards, and even insurance.

#### Cashing in on digital payments

For merchants who are already online, offering a cash prepayment method (like Mukuru Pay) is the best of both worlds. In addition to being fraud-free, since the transaction is only unlocked when the customer pays, it also allows them to expand their customer base – without expanding risks. Merchants receive their payment upfront, and customers don't need to share any banking details to make a purchase. Customers who were excluded from transacting online –

#### The role of data

As more customers transact online, merchants and financial service providers can leverage information from these transactions to provide solutions that bring previously financially excluded customers into the fold. Data plays a crucial role in onboarding and validating customers for online payments and expanding services like insurance and loans - which is why it's essential to get people into the digital ecosystem as quickly as possible. Digital wallets, for example, can unlock wealth tools for customers to fulfil their aspirations.

#### It takes a village

Achieving a tipping point in financial inclusion requires broad acceptance of digital forms of payments. Merchants and consumers need to feel that when they store their money digitally, it has the same value and flexibility as cash – but this is only possible if everyone has enabled digital transactions. Knowing this, we don't see it as a competition if everyone is working towards real financial inclusion – we see it as the right thing to do for all businesses.



With over 100-million transactions to date, Mukuru is a leading next-generation financial services platform that offers affordable and reliable financial services to a customer base of over 13-million across Africa, Asia and Europe. Their base was built on providing international money transfers and from this base – since then, they have developed a set of services to address the broader financial needs of their customers. Mukuru now operates in over 50 countries and across over 300 remittance corridors.

# A merchant perspective on financial inclusion

For micro, small, and medium-sized enterprises (MSMEs) on the ground, the concepts of open commerce and financial inclusion can seem like buzzwords for big brands.



In reality, MSMEs are often already involved in opening up ecommerce to underserved markets as a byproduct of their work. **Tarynne Keown Rajh, Founder at The Shopaholic** talks to us about how she sees open commerce being rolled out on the ground.

#### **Ecommerce - the first step**

Ecommerce has created a space where almost anyone can get involved in selling and buying products and services.

Compared to running a physical store, which can be expensive to rent, manage, and keep fully stocked, ecommerce frees up cash flow by keeping operating costs low. For customers, it opens up the ability to shop from literally anywhere - in principle.

#### **Equal fees for all**

Logistics companies charge extra when it comes to delivering to informal settlements and rural areas. In most cases, the customer takes on this cost – but anyone can see how this excludes certain customers. Our solution has been to absorb the additional delivery costs, so that no matter where a customer lives – they pay the same fee to receive our products.

#### **Caring for your customer**

From our perspective, an important part of financial inclusion is respecting your customers and their money. That means offering high-quality products, and communicating with your customers so that they feel special and safe. It helps to treat every sale as if someone saved up for months and months to buy your product. This should be the foundation of business, regardless of if you're a lone entrepreneur or a big brand.

the shopaholic

The Shopaholic is an online clothing brand that emphasises quality, inclusive sizes, and customer satisfaction. Founded in 2013 while Tarynne was still in high school, the brand has grown exponentially to become a go-to favourite for South African shoppers.

#### An overview of our payment data

Payfast has seen continuous steady growth post-pandemic. The data we've curated reflects the current digital payment landscape and provides a blueprint to grow South Africa's online retail space.



26% increase in payment volumes



increase in payment values

#### Most popular payment methods:



**Card Payments** 

**QR** Payments



**Instant EFT** 

**Open Banking** 

Data taken from Payfast and Paygate engines 1 September 2022 to 31 August 2023

#### A strong foundation for open banking

While credit facilitators only comprise 1% of total volumes, we've seen significant growth in credit payment methods - with a

increase in Mobicred's volume, and a

increase for MoreTyme compared to 2022.

Capitec Pay launched early in 2023 and already comprises

of overall volume for this period - an impressive growth rate off a zero-base.



#### Average Basket Values

Online credit facilities such as

Mobicred and MoreTyme

continue to have significantly
higher average transaction sizes.

The average basket size for
these types of online credit
facilities was

R1778

+93% increase

compared to the average basket, in 2022.







45-54
years old
Fastest growing age group of online shoppers, who now make up 18% of all transactions.

Popular devices used for online shopping		
	Mobile	<b>72</b> %
	Desktop	<b>27</b> %
	Tablet	1%



In the lead up to the Black Friday / Cyber Monday (BCFM) weekend (25 to 27 November 2023), we reflect on some of the data gathered over the past few years.



#### Giving credit where credit is due

Payment volumes via credit facilitation methods like **Mobicred** and **MoreTyme** grew by

**224**%

on Black Friday in 2022, compared to the vear before.

In the same period, payment values for these transactions increased by

140%

Top payment methods for BFCM 2022

1st EFT 64%

2nd **Credit Card** 54%

#### 2022 in numbers

23%

Increase in total payment values

R1 137

Average basket size, **60% higher** than the yearly average

**12**%

Increase in unique buyers

R284 625

The largest recorded transaction value, **68% higher** than 2021

Consumers begin their Black Friday shopping roughly **two weeks before** the actual day. This is the most competitive time of the year for merchants – making it essential to start driving sales way before Black Friday itself.



#### **D** 8am - 10am

Is the busiest times of day, but peak shopping times **can last up to 11am** – this has remained consistent across 2021 and 2022. Merchants should plan digital comms around these times – and ensure their payment platform can handle increased volumes.









Electronics, appliances, beauty and fashion, drove the **bulk of sales** over this period.

#### **More BFCM outtakes**

Payments via **EFT** 

64%

**Gauteng** based shoppers

**54**%

Purchases via mobile

**72%** 



**Buy Now** 



Overall, November brought in 38% more value compared to October, and 39% compared to December. For merchants, this represents the scale of opportunity to attract consumers who are primed to spend their money over this period.

We as an industry need to evolve to deliver the right software-based solutions, that leverage these 'digital access points' to enable the end-consumer - whether in a rural spaza shop or sidewalk - with access to the same financial products and services as someone who walks into a brick a physical bank branch in the city.



## Open commerce is for everyone

By David Adams, Chief Commercial Officer at Payfast

#### **Defining open commerce**

Commerce used to be a fairly closed interaction between an end-consumer and a merchant or bank. With the advent of open commerce, this will continue to change. Open commerce technology and solutions aim to remove friction and make transactions more seamless, through the intentional and consensual sharing of data and information between multiple channels and players in the commerce ecosystem. A good example of innovation in this space is embedded finance, which allows the integration of financial services, like lending or insurance, into the customer journey – without the need to redirect to a financial institution. This is only possible through open commerce.

#### **Driving tech innovation**

Financial inclusion has very much been linked and limited to an organisation's physical reach. To address this, we need to solve the problem of how to bring someone into the digital ecosystem when they are hundreds of kilometres from a physical branch. The answer is obvious - technology. With significantly high levels of mobile phone penetration, and increased accessibility of data and connectivity, the majority of consumers and merchants are able to get online. We as an industry need to evolve to deliver the right software-based solutions, that leverage these 'digital access points' to enable the end-consumer - whether in a rural spaza shop or sidewalk - with access to the same financial products and services as someone who walks into a brick a physical bank branch in the city.

#### Speaking to each other

The fundamental pillar of open commerce is system interoperability, which requires all players in the payment and financial ecosystem to work together. Control is shifted to the end-consumer, who needs to consent to their data being shared with trusted partners. Merchants need to play their role by embracing new technology and choosing to work with partners – whether payment gateways or financial institutions – who can deliver on and leverage the benefits of open commerce.

No organisation can solve for open commerce or financial inclusion in isolation, nor should they try or want to. It's not about who can get there first – it's about how we can get there together. Everyone needs to diversify their role and contribution and be willing to share both the investment and the benefits. We must explore bolder, more innovative strategies to drive growth across the ecosystem.

#### **Key Index Findings**

**49%** 

of merchants see open commerce as an opportunity to grow their business. Merchants who saw an increase in online sales during 2023, compared to 2022

38%



R694

Average basket size for 2023

Significant growth in credit payment methods

96%

increase in volume for Mobicred

**67%** 

increase for MoreTyme compared to 2022.





Open banking (Capitec Pay) launched early in 2023 and already comprises

of overall volume for this period.

**61%** positive

Merchant sentiment going into Black Friday 2023 Fastest growing age group of online shoppers (18% of all transactions)

45-54

years old

