

Fintech and motorcycle platform services in Cape Town, South Africa: legacy capital, retail extension and growing experimentation

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Adderley Street, Cape Town CBD (© Andrea Pollio)

Introduction

There is a strong sense of colonial and European influence in Cape Town, particularly in the city centre. The tall buildings accommodate legacy capital and it is here that financial services abound. Many of the digital startups in Cape Town are found in the 400-year-old central business district. One bank building opposite another, fintech startup offices overlooking each other, the city is considered one of the fintech capitals of the African continent. Supported by digital strategy investment by the City of Cape Town and the Western Cape Government, there are booming partnerships, alliances, and interdependencies among legacy financial institutions and new, innovative fintech operations in sectors such as digital payments and cryptocurrency. In the shade of the city's tall buildings, one can often see groups of motorcycle riders waiting for their next delivery to pop up on their smartphones. While motorcycles are not used for pillion commuting, as in other African cities, they are a common sight delivering packages across the city. This is a growing urban economy made possible by the alliances of fintech and legacy retailers.

The key insight of this report is that, unlike in other African cities, the interface between fintech and motorcycle platform services in Cape Town is made possible by two long-standing institutions of legacy capital: the advanced financial industry and consumer retail. This has generated different pathways for large retailers and fintech payment schemes diversifying through the use of motorcycles.

Fintech, motorcycles and supermarket experimentation

Legacy retailers partner with fintech, in particular digital payment service providers, to create new markets in different socio-economic demographics and, in doing so, motorcycle delivery services have become one of the enablers of this market expansion. In other words, the motorcycle sector in Cape Town is, in many ways, an offshoot of large retailers and fintech seeking new frontiers of expansion through online services.

Legacy seeking new frontiers

At first glance, it seems like fintech is a late entrant into the growing motorcycle delivery platform (and in some ways it is) however the fintech sector has been present in Cape Town for some time. It is through payment systems enabled by digital technologies that fintech is seeking new frontiers, innovating and experimenting particularly in the instant payment options sector. The growing motorcycle delivery platform industry and on-demand services sits in the interstice of fintech and legacy retail mobility, where the motorcycle and rider are the key enablers. Integral to the story is the shopping retail industry in Cape Town and in South Africa more broadly.

A good example of this is blue-chip retailer Shoprite Holdings Ltd, Africa's largest supermarket chain, headquartered in Brackenfell, Cape Town. Shoprite-owned Checkers (a brand targeting middle-income customers) launched its own on-demand grocery delivery app in 2019 – Checkers Sixty60 – which is a product of its own innovation incubator business unit that uses technology and data science to improve its operations and offerings to customers. Shoprite invested in a local technology startup company, Omnisient, a consumer data platform. Shoprite is also the first retailer to launch its own fully fledged transactional bank account as part of its widely successful Money Market offering. Boosted by the COVID-19 pandemic and lockdown regulations, the success of Checkers Sixty60 exceeded expectations, resulting in the further rollout of stores where on demand services would become available, including previously overlooked areas of the city. To achieve this, Checkers Sixty60 relied on three last-mile logistics operations: one in-house and two contractors. Following Shoprite's success, Cape Town has seen a proliferation of large supermarkets offering last-mile on-demand services such as Pick n Pay ASAP!, Dis-Chem DeliverD, and Woolies Dash from Woolworths.

South Africa has a modern retail sector dominated by big supermarket chains such as Shoprite, Checkers, Pick n Pay, Spar, and Woolworths, which depend on the country's warehousing and distribution infrastructure. In other cities on the continent, this is not the case. In post-apartheid South Africa, supermarkets started expanding into township areas – in part due to increased investment in previously neglected areas and by building on existing cold-chain infrastructure, but also due to the increased presence of a black middle and working class (Battersby and Peyton, 2014).

As one investor and expert in the sector put it, the competition between legacy retailers and their alliance with fintech operators is behind the proliferation of services that increasingly rely on motorcycle deliveries. In other words, while motorcycle taxis were already present in many African cities prior to ecommerce and platform deliveries, in Cape Town it has been innovation driven by existing legacy capital and retail supermarket success that has brought motorcycles into the urban landscape.

There is steep competition in the retail space – driven by the market share of these major retailers in South Africa.

~ Startup pre-seed funder, 2022

Innovations in payment solutions

Using a pharmacy delivery app such as Dischem DeliverD, one notices a plethora of payment options. With an advanced banking system like South Africa, why are there so many different ways of paying with a debit or credit card? The answer is that, for more than a decade, startups and older financial institutions in Cape Town have been experimenting with services to bypass technical and legal constraints concerning financial payments. In this context, digital payment providers such as Yoco, iKhokha, and Ozow have been competing for a share of this market with innovative solutions. A corollary of the COVID-19 pandemic has been increasing digital behaviour by consumers and small businesses (merchants and users of mobility platforms), but the influx of early-stage venture capital into fintech and payment gateways had been gaining momentum for many years. Lately, as in the case of Ozow, they have been partnering with retailers such as Dis-Chem Pharmacies to increase the number of customers using their system.

Try as many solutions as possible and see what sticks through consumer behaviour.

~ Startup pre-seed funder, 2022

One of the issues that fintech payment services seek to fix is the delay in real-time payments. In South Africa the bank transfer system requires a day or two and does not allow for real-time payments, which is significant in the on-demand delivery sector. The need for real-time payments is one of the main reasons for innovation in this space. In this way fintech payment system startups open up the market to as many people as possible, with network effects on both sides of the market. For the merchant, speed of payment, reliability, and processing and transactional costs are key reasons why they offer a suite of payment options.

Consumers have the option of paying whichever way is quickest and easiest for them to access. Different apps offer their own payment systems: for example, Uber Eats uses vouchers and gift cards and has an Uber Eats monthly subscription pass that can be used across the platform for Uber (e-hailing), Uber Eats, and Uber Connect. Bolt has a similar payment option across its platforms called Bolt Balance, which can be used as an e-wallet for Bolt Food, rides, and parcel delivery/pickup.

In this context, fintech, large retailers, and other last-mile delivery platforms find connections. These corporate alliances rely on motorcycles and their riders to bridge the last-mile gap. This is a significant insight as experts in the field cite the presumed small margins made in last-mile logistics, yet the proliferation of last-mile delivery platforms continues. The question bears, who is taking on the risk and is all return on investment speculative? As Checkers Sixty60 has proved through its 150% profit in 2021, it is not bearing the costs and instead making huge profits. This has led to the trend of legacy retailers like Pick n Pay, Dis-Chem Pharmacies, and Woolworths diversifying their markets through the motorcycle delivery sector. Fintech startups do the same by offering electronic funds transfer (EFT) and quick response (QR) options to retailers on their last-mile delivery apps.

Digital or cash?

Not all innovations at the interface of the fintech and platform delivery sectors are driven by century-old retail companies or fintech startups. Coupled with the need to offer cash-paying customers the option of delivery, local e-commerce business, PayCheap, sought to expand its enterprise through last-mile delivery. PayCheap's founder and CEO, Pascal Ojong, exhausted his options with the existing motorcycle delivery platforms in Cape Town.

We were actually looking for a service to offer cash-on-delivery. But there were very few companies offering that. We approached all the major guys and they were not really interested in doing cash-on-delivery because it's risky.

~ Ojong, 2022

In March 2020, PayCheap launched its logistics arm, Udreo. Ojong explained how existing logistics companies like DHL and Aramex did not want to take on the risk of doing cash-on-delivery payment options. Recognising the gap, Udreo developed application programming interface (API) technologies to accommodate other e-commerce merchants also wanting to cater to cash-on-delivery customers. They saw the need to cater to customers who were not yet comfortable with or unable to make online payments.

Think about it ... if you look at what actually accelerated Takealot's uptake and increased its market share, its cash-on-delivery.

~ Ojong, 2022

Udreo is one of the local last-mile delivery platforms in Cape Town, offering a range of services to its customer base across the city, including the parts considered unsafe which other delivery platforms typically avoid.

Udreo is a delivery platform that was born out of the need to offer customers the option to pay cash for online purchases, thus increasing market and client bases. It also operates as a software service through which other businesses can download the API and use Udreo's cash-on-delivery services for their needs. Udreo also offers GPS tracking of riders for collections and deliveries.

These examples show how ecommerce platforms using motorcycles have developed additional fintech solutions when they have not been directly available in the market. In doing so, they become fintech operations themselves, offering plug-and-play services to other retailers.

Acquiring motorcycles and added services

We have seen so far how the boom of motorcycle deliveries in Cape Town depended on legacy retail and existing fintech startups seeking new markets. Despite this, motorcycle riders remain almost invisible to the fintech sector. One interviewee from a payment solution company, for example, stated that his startup chose 'not to deal with the motorcycle riders'. Another informant from a tech delivery startup operating in Cape Town's townships mentioned 'we haven't considered using motorcycles for our delivery'. In other words, for historical reasons, using motorcycles is still considered too risky. We can speculate that one of the reasons might lie with the vast majority of riders being foreign nationals who require additional paperwork and permits to work in the city (Webster et al, 2021).

There is also little evidence of new fintech services in asset finance offering insurance designed to target the riders themselves. So far, motorcycle delivery platforms have taken an asset-light approach. In order to become a rider or independent contractor for delivery platforms, one of the requirements is to already own a motorcycle. Riders therefore have to rely on their own capital to secure a motorcycle. Some riders buy second-hand motorcycles through informal forums, Facebook, and WhatsApp groups. There are tight-knit forums where riders share information about work, where to get motorcycles, and who to rent them from.

Renting motorcycles in Cape Town

In the Cape Town context, there are some new entrants seeking to tap into the motorcycle market using rental financing schemes. For example, FlexClub, a fintech startup based in the Netherlands, formally partnered with Uber to provide drivers with rental cars, asset finance, and subscription. In July 2022, FlexClub announced it would expand its offerings to riders who work with delivery platforms such as Uber Eats, Mr D Food, Checkers Sixty60 and others by providing motorcycles to riders by way of a weekly subscription service costing ZAR 600–800 (USD 34–45) depending on the make of the motorcycle (Honda

or Bajaj).¹ The motorcycles are fitted with USB ports to allow drivers to charge their phones and stay connected to delivery platforms. A rear-mounted delivery box can also be rented from FlexClub for approximately ZAR 128 (USD 7) per week.

Lularides assists riders in acquiring motorcycles and e-bikes through free registration on their website, or sending a WhatsApp message or calling its office. Interested riders then attend an information session at Lularides' office in Parow (north of Cape Town) and pay an administration fee to help obtain a learner's license if the rider does not have one, assist with rider training, and acquire a motorcycle or e-bike on obtaining a full license. All of these services are included in the administration fee. However, the service is only available to South Africans, hence cutting out a significant part of the platform labour force as the majority of platform workers in the delivery sector are foreign nationals.

Lularides offers rider training and lessons for riders to obtain their licence. The payment arrangement between the rider and Lularides after the initial admission payment is not clear. However, riders are given a motorcycle after the successful acquisition of their motorcycle licence.

Although Mobile Macs is not based in Cape Town but in Johannesburg, it is an example of a company that assists individuals and businesses to rent motorcycles, scooters, and e-bikes. Mobile Macs offers various options to its clients, depending on their needs. Typically rentals start at around ZAR 91 (USD 5) a day to ZAR 600–800 (USD 34–45) a week. The Kauai app franchise in Cape Town rents two e-bikes, paying a fee of ZAR 1,500 (USD 84) a month per bike. Mobile Macs also offer added services to its client base including onsite services, and repairs and maintenance of fleets and individual

¹ Exchange rate as at 4 April 2023: USD 1 = ZAR 17.92 (<https://www.xe.com>)

bikes. It has also partnered with Uber Eats to offer riders the opportunity to rent refurbished bikes (Honda Elite) at ZAR 600 (USD 34) per week.

Mobile Macs is a rental 'specialist' that offers motorcycles, scooters and e-bikes to businesses and individuals. They also offer added services to their clients such as repairs, a breakdown service and GPS tracking.

Table 1 summarises the financial models, services and rates offered by the experimental fintech services in Cape Town in December 2022.

Regulation

At the moment there are no specific laws governing fintech products and services in South Africa. However, the range of sector offerings fall within the ambit of key financial services regulatory bodies in South Africa, which are highly developed. The main regulatory bodies and government agencies that oversee fintech activities in South Africa are: the South African Reserve Bank (SARB), which regulates the payment industry; the Financial Sector Conduct Authority (FSCA), which ensures stability and transformation in financial markets, and promulgates relevant financial sector legislation; the Prudential Authority (PA), which regulates banks, insurers, and financial service providers with international markets; the National Credit Regulator (NCR), which advises government on relevant policies and legislation; and the Financial Intelligence Centre (FIC), which assists government in the identification of unlawful activities and upholding the integrity of South Africa's financial sector.

New frameworks and amendments to existing legislation to regulate the fintech sector are emerging. Amendments include the stronger enforcement of the Protection of Personal Information Act (POPI Act). As of March 2022, the Conduct of

Table 1: Fintech services offered in Cape Town as of December 2022

Financial model	Added services	Rate	Example
Acquisition of Honda and Bajaj motorcycles through rent-to-own schemes	Riders can also rent containers	Motorcycle subscription: ZAR 600–800 (USD 34–45) per week Delivery box: ZAR 128 (USD 7) per week	FlexClub
Rented motorcycle and e-bikes through a once-off subscription fee	Assists riders in obtaining a motorcycle learner's license and rider training (At this point in time the services are only available to South Africans.)	Not disclosed	Lularides
Rented motorcycles, scooters and e-bikes	Branding, licensing, repairs and services, tracking and roadside assistance	ZAR 91 (USD 5) per day or ZAR 600–800 (USD 34–45) per week or ZAR 1,500 (USD 84) per month	Mobile Macs

Financial Institutions (CoFI) Bill was introduced to consolidate the conduct and standards of financial institutions. The Bill is aimed at protecting customers and promoting fair treatment of customers by supporting transparent and efficient financial markets. CoFI is predicted to transform South Africa's fintech sector with additional amendments to the Know Your Customer (KYC) regulatory regime. Regulation is also meant to support tech innovation.

In sum, regulatory bodies have not done specific work on the interface of fintech and motorcycle platforms given the reality that riders have not been the main targets of dedicated fintech services for credit or insurance products. As yet, there has not been any specific regulatory push to govern these kinds of transactions or practices.

Conclusion

Cape Town represents a unique context of innovation and experimentation for 'finteched' and platformed motorcycle mobility in last-mile logistics. The foundation of local government investment in broadband infrastructure by municipal and provincial organs of state, coupled with investment in cold storage infrastructure, cloud computing, deep sea cables, and an advanced financial and regulatory system, has laid solid ground for experiments of various levels of sophistication to take place. The mix of socio-economic issues and seemingly uncharted terrain serves as a testbed for mobility and fintech innovations and well-established supermarket retailers to expand their reach. Motorcycle platform mobility has led to a diversification of industries in existing urban economies such as supermarket on-demand delivery. Different businesses are also able to leverage one another's offerings resulting in various partnerships and corporate alliances. In an attempt to increase market share, startups in the motorcycle and fintech spaces are innovating their methods and payment options to increase the number of potential customers across economic classes. Although fintech innovations primarily occur in the payment options sector, in the case of Ozow and instant EFT, the asset finance and insurance offerings in fintech are only emerging experimentally. What remains clear is the need to crowdsource the existing rider network of individuals, primarily foreign nationals, who are more vulnerable and more exposed to risk than locals. If there are low margins to be made in last-mile delivery in the African context, who is really bearing the cost? And to whom is the risk being shifted? The question begs: how just are these practices, and who are the winners and losers?

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