



Nigeria

Digital Financial Services in Nigeria

2014

Facts and figures*

Sector overview

The digital financial services (DFS) industry in Nigeria is rapidly evolving after the industry experienced a slow start with the launch of DFS operations in 2009. DFS are still mainly utilized by the banked population, with penetration mostly limited to urban areas; penetration levels among the unbanked and those living in rural areas range from zero to low.

Northern Nigeria is grossly underserved and is likely to remain so in the near future. There are 24 licensed DFS providers in the market offering various products such as bill payment, airtime top-up, micro-insurance, savings and money-transfer services. On top of being concentrated in urban areas at the moment, the overall size of the agent networks is grossly inadequate for Nigeria's size.

The country is moving towards DFS largely through bank and third-party provider led models. The Central Bank of Nigeria has put in place regulations to ensure consumer protection with DFS.

Apart from poor agent networks, rapid growth of DFS in Nigeria has been inhibited by challenges such as inadequate capital outlay on the part of mobile network operators (MNOs); poor infrastructure (power, roads, telecommunications, etc.); lack of awareness/customer education; and limited interoperability and interconnectivity among networks.

173.6 million

Total population

60% (incl. 32% through banks)
Financial inclusion rate

USD 5,601

GDP per capita (PPP)

40%

Mobile phone penetration



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Key findings

Policy and regulation

A regulatory framework created by the Central Bank of Nigeria for the development of DFS identifies three major models of implementation, namely bank-focused, bank-led and non-bank-led, which all provide for branchless channels to be used by banks and other types of financial institutions, except MNOs. However, the framework appears to be skewed towards the bank-led model and is still evolving. The Central Bank of Nigeria is championing the country's 'cashless' initiative to reduce the volume of cash-based transactions through e-payment systems and platforms.

Delivery infrastructure

The country is lagging far behind comparable economies and requires an estimated EUR 72 billion over the next five years to address infrastructure deficits. The Government has announced it will invest EUR 122 billion in infrastructure, which will far surpass the minimum investment requirements. Poor infrastructure, particularly a poor supply of electricity, has some bearing on the low mobile penetration rate—especially in rural areas (40 percent). However, the country's declared intent to push the rural telephony penetration rate to 60 percent by 2015 may improve the potential for the adoption of DFS. The development and adoption of a single switch—Nigeria Inter-Bank Settlement System (NIBSS)—augurs well for a national rollout of DFS.

Providers

There are 24 licensed DFS providers in the market offering various products such as bill payment, airtime top-up, micro-insurance, savings and money-transfer services. MNOs are partnering with insurance firms to offer micro-insurance products such as life insurance. Payment terminal service providers, such as Global Accelerex, Interswitch and Unified Payment Services, offer various merchant services. Beyond these services, Sterling Bank's and Pagatech's partnership offers agent/merchant management services. Currently, banks see DFS mainly as an alternative channel to reach the already banked population. Early providers of DFS such as Pagatech and eTranzact are showing positive signs of business growth, but customer numbers remain low in relation to Nigeria's population.

Agent networks

Though agent networks are critical for a sustainable drive towards DFS, a key challenge is that banks are not keen to expand their agent networks (on the basis of profitability). Consequently, cash-in/cash-out points in Nigeria are limited. Meanwhile MNOs, which have both the financial and technical muscle to put up the networks, have been locked out through regulatory provisions. As of the end of 2012, DFS operators in Nigeria had a combined total of 3,000 agents across the country—a number in sharp contrast to analyst estimates that Nigeria requires between 50,000 and 250,000 agents. Interestingly, approximately 12 DFS providers have signed agreements with the Nigerian Postal Office to use its distribution network for agent banking services.

High volume

Nigeria is beginning to conduct DFS high volume payments, although there is still a largely unexploited opportunity to convert high volume payment transfers to electronic means. The Government of Nigeria has recently announced a partnership with MasterCard to provide MasterCard-enabled ID cards to each citizen, allowing each person in the country to receive payments directly to his/her ID card.

Clients

About 60 percent (53 million) of Nigeria's adult population is financially included. People in the northern part of Nigeria are more financially excluded than those in the rest of the country. A key challenge inhibiting the proliferation of DFS is mistrust, which emanates from a generally high level of financial fraud in Nigeria. There is, therefore, a need to ensure system integrity and reliability in practice. The country's financial literacy strategy comprises school programmes, outreach programmes and information dissemination tactics. However, low awareness of DFS is a major barrier to uptake. A survey conducted by Enhancing Financial Innovation & Access revealed that about 66.2 percent of respondents were not familiar with DFS.

Key stakeholders

Regulators



- Central Bank of Nigeria
- Nigerian Communications Commission

Main banks

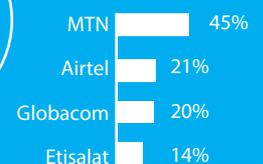
- First Bank
- Zenith Bank
- United Bank for Africa
- Guarantee Trust Bank
- Access Bank



Mobile network operators



Market share



Digital financial service providers

- Firstmonie
- U-Mo
- Paga
- PocketMoni
- Stanbic
- Fortis Mobile Money
- Ecobank
- Guarantee Trust Bank
- eTranzact
- mKudi
- Teasy Mobile



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