FINANCIAL INCLUSION IN NIGERIA: MOBILE MONEY SERVICES, PAYMENT SERVICES BANKS AND TELECOMMUNICATIONS OPERATORS

The Central Bank of Nigeria's (CBN) National Financial Inclusion Strategy has as its primary objective provision of access to financial services to at least 80% of Nigeria's bankable adult population by the year 2020. To attain this objective the CBN has adopted several initiatives including microfinance banking, agent banking, tiered know your customer requirements and mobile banking. These initiatives are however still not penetrative enough as the inclusion rate is still lower than expected. Though, the financial inclusion rate of bankable Nigerian adults has reportedly increased from 45.4% in 2016 to 63.6% in 2018 it is still short of the projected target of 80%.[1]

Financial inclusion has been described as "the provision of a broad range of high quality financial products, such as savings, credit, insurance, payments and pensions, which are relevant, appropriate and affordable for the entire adult population, especially the low income segment."[2] It has been recognized as a possible critical tool for poverty reduction, inequality, employment generation, wealth creation, improved welfare and standard of living for a substantial number of people, particularly the rural poor and the financially excluded.

[1] EFInA - *Access to Financial Services in Nigeria 2018.* Survey 11 December, 2018 *available at* https://www.efina.org.ng/our-work/research/access/

[2] https://www.efina.org.ng/about/financial-inclusion/

Two of the initiatives adopted by the CBN in its financial inclusion drive, the licensing of Mobile Money Operators (MMOs) and Payment Services Banks (PSB), have been of particular interest to telecommunications companies (Telcos) as they both rely extensively on the infrastructure and technology provided by Telcos . Under the mobile money scheme the Telcos provide the infrastructure to drive the exchange of messages for mobile payment and PSB licensees are expected to leverage on mobile and digital channels for the provision of their services, thereby enhancing financial inclusion and stimulating economic activities at the grassroots through the provision of financial services. Telcos are therefore critical stakeholders in the digital financial ecosystem and the achievement of the CBN's financial inclusion objectives.

Mobile Money Services

Mobile money involves the use of mobile phones for the initiation, authorisation and confirmation of the transfer of a value out of a current, savings, or stored value account. Some analysts are of the view that the low success rate of mobile money services in Nigeria can be attributed to the existing legal framework which expressly excludes Telcos from being "the Lead Initiator" even in the non-bank led model.[3] This position is premised on the fact that the success stories of the adoption of mobile money services in Africa have been in countries where Telcos have taken the lead in the provision of the services.[4] Examples abound like Kenya, Tanzania, Uganda and Ghana.[5] Nigeria's mobile money landscape is dominated by banks, technology and financial services companies.

The arguments in favour of a Telco led mobile money framework is further supported by their subscriber numbers, available infrastructure and agent network which far surpasses that of the banks in terms of numbers and geographical spread.[6] Ghana is often cited as an example of how a review of the legal framework to allow Telcos apply directly for mobile money licenses has positively impacted the adoption of mobile money services which has resulted in an increase of about 72% in the number of mobile money users.

Though the CBN recognizes the importance of Telcos in the operations of the mobile money scheme given the necessity of the infrastructure they provide, it however feels compelled to prohibit the Telco-led option in order to

[3] Please see the provisions of the Regulatory Framework for Mobile Payment Services in Nigeria and the Guidelines on Mobile Money Services in Nigeria.

[4] Since 2011 the Central Bank of Nigeria (CBN) has licensed 21 Mobile Money Operators (MMOs). It is reported that not until recently and between January and September 2018 there was a 50% increase in the volume of mobile money transactions to the tune of 1.2 trillion naira as against 795.18 billion naira during the same period in 2017. Mobile money users have also reportedly increased from 3.2 million in 2017 to 5.54 million during the same period. *See* https://nairametrics.com/airtel-joins-league-of-telcos-vying-to-establish-payment-service-bank/ Compare this however with reports that show that transactions worth over $1bn a day were processed by mobile money operators worldwide with over 690 million registered users in 90 countries making it the leading payment platform for the digital economy in many emerging markets. See Mats Granryd, Director General GSMA- Businessday Newspaper of 28th March 2018 page 26 – *''Sub-Saharan Africa remains the dominant force in mobile money''*

[5] Within five years of its launch, M-Pesa in Kenya had 15 million customers, equivalent to 37.5% of the country's population, and was processing $10 billion annually. See Rajiv Lal and Ishan Sachdev- *Mobile Money Services - Design and Development for Financial Inclusion*, 2015.

[6] There is telecoms network coverage in about 86 percent of the country with presence in 773 local government with total mobile subscription of 172.4 million subscribers as at December 2018.

ensure it retains full control of monetary policy operations, minimize risks and that the offering of financial services are driven by organizations that have been licensed by it. Telcos are therefore restricted to the provision of telecommunication network infrastructure for the use of Mobile Money Operators (MMOs)

Payment Service Banks (PSBs)

In October 2018, the CBN pursuant to its statutory powers issued the *"Guidelines for licensing and Regulation of Payment Service Banks in Nigeria"* (the PSB Guidelines). The PSB Guidelines require licensees to "leverage on mobile and digital channels to enhance financial inclusion and stimulate economic activities at the grassroots through the provision of financial services". The PSBs are to further "facilitate high-volume low-value transactions in remittance services, micro-savings and withdrawal services in a secured technology-driven environment to further deepen financial inclusion and help in attaining the policy objective of 20 per cent exclusion rate by 2020."[7] The primary targets of PSBs are therefore the unbanked, the underserved and the financially excluded.

The list of permissible promoters of PSBs include banking agents, Telcos through subsidiaries, retail chains (supermarkets, downstream petroleum marketing companies), postal services providers and courier companies, MMOs, financial technology companies (Fintechs, financial holding companies and any other entity on the merit of its application subject to the approval of the CBN).[8] The minimum capital requirement for a PSB is Five Billion Naira (N5bn) or such other amount that the CBN may prescribe from time to time.[9]

[7] *Pages 4 and 5 of the PSB Guidelines.*
[8] *Ibid Article 5*
[9] *Article 9.1*

PSBs are, amongst other requirements, required to operate mostly in the rural areas and unbanked locations targeting financially excluded persons, with not less than 25% financial service touch points in such rural areas. They are allowed to enter into direct partnership with card scheme operators and [10]deploy Point of Sale devices, appoint agents [11] and roll out agent networks. They are also expected to be technology-driven and conform to best practices on data storage, security and integrity.[12]

The PSBs are permitted to accept deposits from individuals and small businesses and carry out payments and remittances (including inbound cross-border personal remittances) services through various channels within Nigeria. They are further permitted to sell foreign currencies realized from inbound cross-border personal remittances to authorized foreign exchange dealers, issue debit and pre-paid cards in their names, operate electronic wallet, render financial advisory services, invest in FGN and CBN securities and carry out such other activities as may be prescribed by the CBN from time to time[13]They are however not permitted to grant any form of loans, advances and guarantees (directly or indirectly), accept foreign currency deposits and deal in the foreign exchange market except as prescribed in relation to inbound cross border personal remittance.[14]

Telcos are permitted to be promoters of PSBs through subsidiaries established solely for that purpose and are further required to obtain a "no objection letter" from the Nigerian Communications Commission (NCC) in support of their

[10] *Such cards shall however not be eligible for foreign currency transactions*
[11] *in line with the CBN's Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria*
[12] *Article 3*
[13] *Article 4.1*
[14] *Arti lce 4.2*

application to the CBN.[15] To encourage fair competition amongst licensees, the PSB Guidelines provides that a parent company or any other related entity of a PSB, which renders services to its PSB, shall extend similar services to other entities that so desire on the same terms and conditions.

A parent company or any other related entity of a PSB is prohibited from offering any preferential treatment to its PSB subsidiary. The anti-competitive provisions in the PSB Guidelines are expected to provide a level playing field between PSBs that are Telco subsidiaries and other PSBs.

PSBs are licensed by and under the supervision of the CBN and are required to render various returns to it, including a return on the number of financially excluded customers on-boarded during the quarter to which the returns relate.[16] They are further required to comply with relevant provisions of the Money Laundering (Prohibition) Act, 2011 (as amended), Terrorism Prevention Act, 2011 (as amended), CBN AML/CFT Regulations for Banks and Other Financial Institutions 2013 and other extant laws and regulations on Know Your Customer issued by the CBN.[17] All CBN regulations on operations of electronic payment channels are also applicable to PSBs.[18]

MTN Nigeria and Airtel networks, two of the largest Telcos in Nigeria, have announced their intention to apply for PSB licences so as to take advantage of the projected opportunities..[19] These announcements would definitely be welcomed by the CBN as it signifies the acceptance of the legal framework by the Telcos. The Telcos are expected to leverage on their existing customer base, distribution and agent networks, infrastructure and their geographical footprint across Nigeria and are presently in the process of setting up subsidiaries to apply for the licences as required by the Guidelines.

Conclusion

The Mobile Money scheme and the PSB model will run concurrently and will hopefully drive the financial inclusion objective of the CBN while at the same time providing another revenue stream for the Telcos. The adoption of the PSB model by India has shown the potentials of the model in supporting the Indian government's goal of achieving financial inclusion. Under the Indian model, licenses have been issued to Bharti Airtel, Vodacom India and other companies and reports have shown that modest gains have already been achieved even though the prohibition on granting loans as obtains in Nigeria, is considered an unnecessary restriction and hindrance to the full participation of the licensees in the provision of financial services.

The prohibition of the granting of loans by PSBs in Nigeria is an opportunity missed to further promote financial inclusion as access to loans from banks and financial institutions continues to be a major issue for the informal sector, micro, small and medium enterprises that require only minimal capital for their businesses. These businesses should be able to benefit from any financial inclusion drive.

We expect the Telcos to continue to be important stakeholders in the achievement of the financial inclusion targets of the government by playing a significant role in providing access to financial services, economic growth of the target areas and poverty alleviation.

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[15] *Article 5 (2) and Page 2 of the Guidelines.*
[16] Article 10
[17] Article 11
[18] Article 14
[19] In announcing its intention MTN had stated that it expects to commence service in the 2nd quarter of 2019. There are also indications that the CBN may start granting licenses by the end of Q1 2019