Payment Service Banks in Nigeria: Opportunities and Challenges

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List of abbreviations

BVN Bank Verification Number

CBN Central Bank of Nigeria

IMF International Monetary Fund

NAICOM National Insurance Commission

NCC Nigerian Communications Commission

NDIC Nigeria Deposit Insurance Corporation

NFIS National Financial Inclusion Strategy

NIBSS Nigeria Interbank Settlement System

NIMC National Identity Management Commission

NIN National Identification Number

PB Payments Bank

PSB Payment Service Bank

RBI Reserve Bank of India

SDGs Sustainable Development Goals

SEC Securities and Exchange Commission

Executive summary

Financial inclusion is essential to equitable and sustainable development. While some progress has been made in deepening financial inclusion in Nigeria over the past decade, the pace of inclusion has been slow due to significant demand- and supply-side challenges. At the end of 2020, only 51 per cent of adults in Nigeria were using formal financial services, such as mobile money, insurance and pensions.[1]

In 2018, payment service banks were introduced to expand financial inclusion in Nigeria.

In October 2018, the Central Bank of Nigeria (CBN) announced a new licence category – payment service banks (PSBs) – that would facilitate high-volume, low-value transactions for payments, microsavings and withdrawals. Modelled on India's payments banks (PBs), PSBs are intended to provide a cost-effective way for rural residents in Nigeria to access financial services through a combination of physical, mobile and digital channels. Telecoms subsidiaries, banking agents, retail chains and mobile money operators are all eligible to apply for PSB licences.

Regulations limit the range of financial products that PSBs can offer, so licensed organisations need to have the right mix of resources and capabilities to succeed.

Regulations allow for PSBs to offer only a narrow range of products. For example, they are not permitted to offer credit services. However, the extensive distribution networks of service providers, as well as reduced bureaucratic procedures for account set-up and mobile-enabled service delivery is expected to enable them to deliver services cost-effectively in rural areas. Organisations that already have digital channels, a large geographical presence, and expertise in downstream operations, such as retail outlet chains and telecoms operators, are most likely to succeed commercially as PSBs and advance financial inclusion in rural and remote areas.

There are currently three licensed PSBs in Nigeria: Hope PSB, 9PSB and MoneyMaster PSB. The latter two launched operations in early 2021. In November 2021, two other applicants, MoMo PSB and Smartcash PSB, were granted approval in principle (AIP) to offer PSB services. Four of the five PSBs are subsidiaries of mobile network operators (MNOs), which have extensive distribution networks in every part of the country and a deep knowledge of customer needs from serving users across socio-economic segments. The approval of these licences represents a commitment from regulators to leverage the capabilities of MNOs to drive financial inclusion in Nigeria.

1 Enhancing Financial Inclusion and Access (EFinA). 2020. Financial Services Agent Survey 2020.

Partnerships in payments services and product distribution with organisations in key sectors will serve to enhance both profitability and the value proposition for PSBs.

Given the limited scope for financial product offerings and the demand-side limitations PSBs face, questions remain about their commercial sustainability and potential impact on financial inclusion. This makes partnerships, especially for payment transactions and product distribution, key to creating new value propositions for PSBs. This includes partnerships with distribution networks and organisations in the financial, agriculture, utilities and transport sectors, as well as with humanitarian services and the public sector.

This report is aimed at PSB licensees and other stakeholders interested in how partnerships can meet the twin goals of commercial sustainability and financial inclusion. Our research findings underscore the need for the following actions by stakeholders for the PSB model to achieve success:

Due to the limited services PSBs can provide under the supervisory framework, regulators need to support them by:

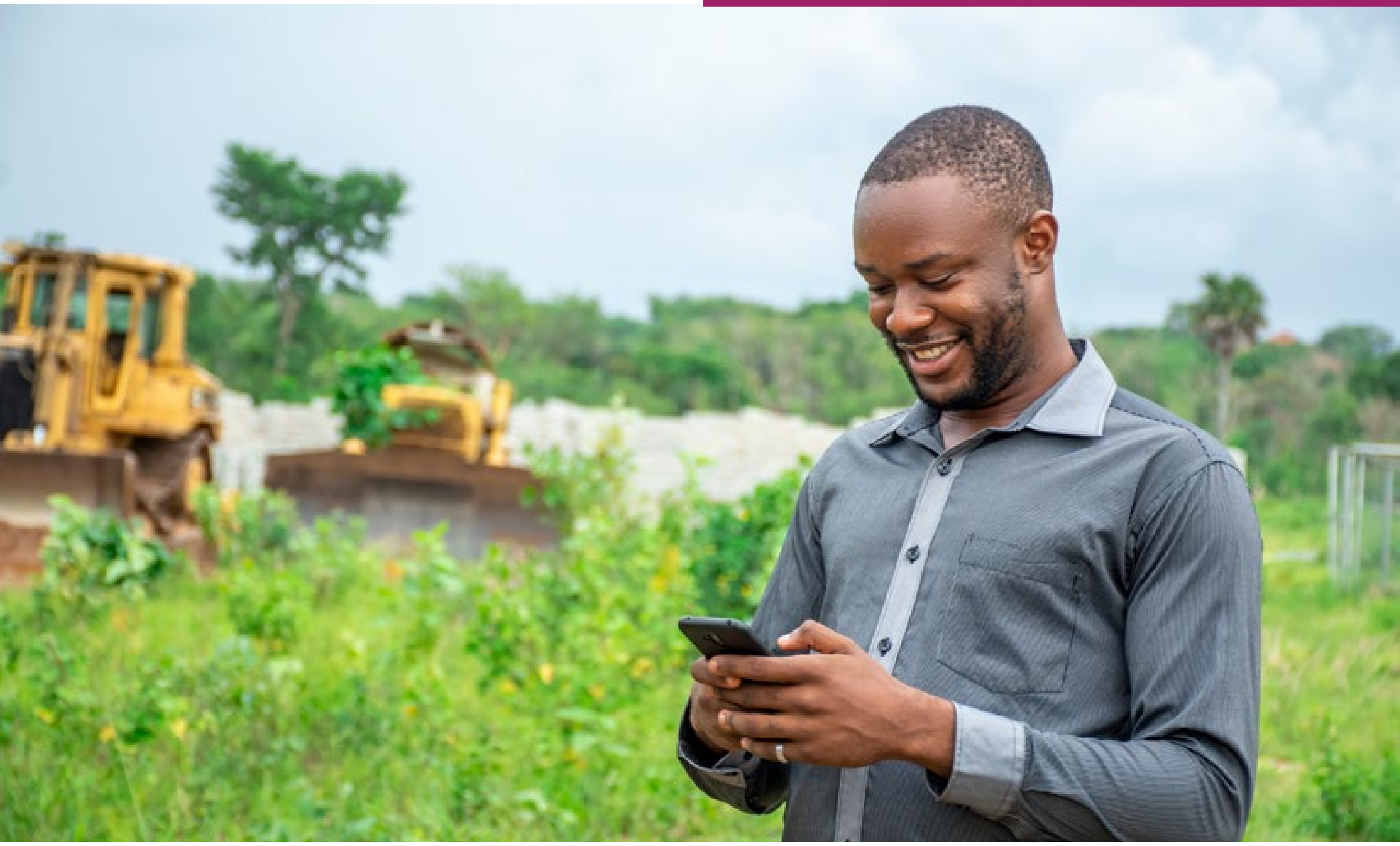
- Providing regulatory clarity;
- Ensuring regulations are enabling; and
- Considering regulatory evolution based on market evidence, as seen in India, to enable more partnerships and more revenue streams over time, increasing the value proposition for the unbanked.

With limited revenue streams, PSBs need to:

- Strategise to optimise delivery channels and distribution networks while managing costs;
- Invest in optimal technology;
- Understand the product needs of unbanked populations; and
- Expand payment services and product offerings through partnerships.

With financial inclusion in Nigeria remaining low despite the introduction of a number of banking models, the development community needs to:

- Advocate for enabling regulations for PSBs and a level playing field;
- Invest in understanding the financial needs of those in rural areas, as well as their digital and financial literacy;
- Invest in agent training;
- Support the digitisation of humanitarian cash payments; and
- Support the wider financial ecosystem in reaching maturity such as in interoperability and payments infrastructure.



Introduction

Financial inclusion is an essential part of an equitable society, as it creates the conditions for broad-based economic development and better outcomes for vulnerable groups. In Nigeria, the 2020 Access to Financial Services (A2F) survey conducted by Enhancing Financial Innovation and Access (EFInA) showed some progress in financial inclusion in the past decade. More than 50 per cent of adults in Nigeria are using formal financial services compared with 36.3 per cent a decade earlier.[2] However, the target of 70 per cent financial inclusion by 2020 set out in the National Financial Inclusion Strategy (NFIS) was not met. This is due to several persistent demand- and supply-side challenges, laid out in Table 1.[3]

2 EFInA. (2021). Access to Financial Services in Nigeria Survey 2020.

3 Broader macroeconomic factors, such as unemployment and security-related issues in some parts of the country, have also hindered financial inclusion efforts in Nigeria. For example, the shutdown of mobile networks in some North West and North Central states, including Kaduna, Niger, Sokoto and Zamfara, in September 2021 had a negative impact on the provision of digital financial services (DFS) and other mobile-enabled transactions in the affected areas. See: Vanguard Newspapers. (16 November 2021). Network shutdown: Kaduna POS operators vacate business premises.

Table 1

Demand- and supply-side barriers to financial inclusion in Nigeria

Demand-side barriers	
Affordability	High fees for transactions (e.g., withdrawals) and other charges discourage price-sensitive individuals who perceive cash as no cost.
Awareness and literacy	Low awareness of financial services and access channels, particularly digital, and low financial and digital literacy among unbanked populations.
Perceived value	The perceived value of financial services, particularly basic savings, is low among low-income users. This is often compounded by the affordability challenge.
Cash culture	Reliance on cash transactions in the informal economy, which accounts for 93 per cent of all employment in Nigeria.[4]
Identification	Lack of formal ID to meet know-your-customer (KYC) requirements.
Supply-side barriers	
Targeting	Insufficient marketing campaigns and other promotional activities targeting the financially excluded. The primary focus is on banked customers instead.
On-boarding	Onerous customer on-boarding processes. In some cases, they can take several days and require multiple forms of documentation.
Access	Limited access points in rural areas and high maintenance costs for existing facilities, even in urban areas.
Products	Lack of innovative financial products that address the specific needs of underbanked and excluded populations.
Infrastructure	Poor infrastructure, including roads and electricity, and lack of access to mobile services in the most hard-to-reach areas.

Source: GSMA Intelligence

4 International Labour Organization (ILO). (2020). A Rapid Diagnostics Assessing the Impact of COVID-19 on Enterprises and Workers in the Informal Economy in Nigeria.

Barriers to financial inclusion are more acute among marginalised groups, such as women, rural residents, those with low literacy levels and people living in Nigeria's northern states (Figure 1).

Figure 1

Financial exclusion by social and economic factors

Of the 38 million financially excluded adults in Nigeria:

81.0% Live in rural areas	**73.3%** Have not completed secondary education	**43.0%** Live in the North West	**61.0%** Use a mobile phone
59.9% Are aged 35 years or less	**56.0%** Are women	**27.0%** Derive their income primarily from farming	**31.0%** Derive their income primarily from a micro/small business

Source: EFInA, Access to Financial Services Survey 2020[5]

5 EFInA. (2021). Access to Financial Services in Nigeria Survey 2020.

The CBN has introduced a range of initiatives in the past two decades to address financial exclusion (Table 2). In 2010, the CBN changed Nigeria's universal banking model to a core banking model. Commercial, merchant and specialised banks, such as mortgage banks and microfinance banks (MFBs), now operate under this model and are only allowed to offer core banking services. These banks have not managed to advance financial inclusion in Nigeria for both macro-economic and organisational reasons.

Macroeconomic pressures include declining gross domestic product (GDP) growth, inflation, high unemployment, and unstable exchange rates due to oil price instability.[6] In addition, policy measures put in place to stabilise the financial system have negatively impacted profitability.[7]

Organisational challenges include:

- The high cost of branch banking and low customer traffic that make bricks-and-mortar banks in rural areas unviable;
- The high cost of banking charges to customers: 40 per cent of Nigeria's population have incomes below the poverty line[8] and 93 per cent work in the informal economy;[9]
- Cumbersome identification (ID) requirements for bank account opening that rural dwellers cannot meet. Seventy-three per cent of unbanked Nigerians lack the relevant documents to access formal financial services;[10] and
- Bureaucratic procedures that make banking inconvenient for customers.

To address these challenges, the CBN authorised a mobile money model in 2009; however, telecoms operators were strictly restricted from offering mobile financial services directly to their customers and can only do so by hosting a CBN approved third-party provider on their infrastructure, leading to low incentive and low uptake.[11] The CBN has also encouraged agent banking. But agent banking has faced several challenges, from lack of incentives for agents to open bank accounts to issues of fraud, liquidity management and charging self-determined fees.[12]

6 McKinsey. (14 Dec. 2020). Nigeria's banking sector: Thriving in the face of crisis.
7 Ibid.
8 Nigerian National Bureau of Statistics Nigeria. (May 2020). Poverty and Inequality in Nigeria 2019.
9 International Labour Organisation. Terms of Reference; Diagnostics Assessing the Impact of COVID-19 on enterprises and workers in the informal economy in Nigeria.
10 See with Statistic from EFinA website.
11 USAID. The Digital Financial Services Landscape in Nigeria; Enabling Market Conditions for Pay-As-You-Go Solar.
12 EFinA. (2020). Financial Services Agent Survey.

In 2018, when progress on financial inclusion remained slow, the CBN introduced a new type of financial institution: payment services banks (PSBs). Modelled on India's payments banks (PBs), PSBs are expected to use a combination of wide distribution networks, agile delivery channels and digital technology to deliver basic banking products and services to the unbanked, rapidly and cost-effectively.

Table 2

Timeline of key developments

2009	CBN releases The Regulatory Framework for Mobile Payments in Nigeria.
2010	Shift from universal banking model to a core banking model.
2012	CBN sets the National Financial Inclusion Strategy (NFIS).
2014	CBN releases Guidelines on Mobile Money Services in Nigeria to update the mobile money framework: 21 mobile money operators are licensed by this time.
2015	The CBN issues the Regulatory Framework for Licensing Super Agents in Nigeria.
2018	CBN revises the NFIS, recognising that mobile money had failed to take off since 2012. CBN issues the Framework for the Operation of the Shared Agent Network Expansion Facility (SANEF). CBN issues guidelines for the operation of PSBs.
2021	CBN issues the supervisory framework for PSBs.

However, even if PSBs can solve the problem of access to financial services in rural and remote areas, restrictions on the types of products that PSBs can offer, in particular lending and insurance products, raises questions about the commercial sustainability of PSBs and the value proposition they offer to the unbanked.

Objectives

This research assesses the potential role of PSBs in deepening financial inclusion in Nigeria and the opportunities and challenges for PSBs to build commercially viable operations within the confines of the PSB regulatory framework. Specifically, we sought to answer the following questions:

- What are the key enablers and challenges facing PSBs and how will these affect the ability of PSBs to scale their operations and advance financial inclusion?
- How can PSBs form strategic partnerships to become commercially viable and enhance the value proposition for unbanked and underbanked populations?
- How can key stakeholders support PSBs to thrive commercially while also expanding financial inclusion?

Methodology

This research builds on existing knowledge and evidence from an extensive desk review of secondary sources and interviews with key stakeholders in the Nigerian financial ecosystem. In total, 14 organisations relevant to the operation and growth of PSBs participated in interviews conducted remotely including regulatory bodies, financial sector players and development partners. These organisations participated anonymously, so while we quote key insights from stakeholders in the report, these are non-attributable.

Limitations of the study

It has only been a year since two of the five PSBs launched commercial services in Nigeria. Therefore this report presents an exploratory analysis based on insights from the literature and key stakeholders. We highlight the potential commercial opportunities that PSBs may be able to leverage, but the study is limited by a lack of longitudinal data on operations and company performance.

01

Understanding payment service banks (PSBs) in Nigeria

1.1 The PSB regulatory framework

In October 2018, the CBN announced guidelines for the establishment of PSBs[13] to accelerate progress on national financial inclusion targets. Nigeria's PSB regulatory framework (see Box 1) is modelled on India's PBs, which were created to facilitate high-volume, low-value transactions in payment services, microsavings and withdrawal services in a secure, technology-driven environment.[14] PSB licensees are expected to provide financial services through a combination of physical, mobile and digital channels to accelerate financial inclusion in rural areas. Telecom company subsidiaries, banking agents, retail chains and mobile money operators are eligible to apply for PSB licences.

13 CBN. (5 October 2018). Guidelines for licensing and regulation of payment service banks in Nigeria.
14 Reserve Bank of India (RBI). (19 August 2015). RBI grants "in-principle" approval to 11 Applicants for Payments Banks.

BOX 1

The PSB regulatory framework

The Payment Service Banks shall:

- Use the words "Payment Service Bank" in its name to differentiate it from other banks. However, the name of a PSB shall not include any word that links it to its parent company or promoter.
- 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 as defined by the CBN from time to time;
- Enter into direct partnership with card scheme operators. Such cards shall not be eligible for foreign currency transactions;
- Be at liberty to operate through banking agents (in line with the CBN's Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria);
- Deploy ATMs in some of these areas;
- Deploy Point of Sale devices;
- Roll out agent networks with the prior approval of the CBN;
- Use other channels including electronic platforms to reach out to its customers;
- Establish coordinating centres in clusters of outlets to superintend and control the activities of the various financial service touch points and banking agents;
- Be technology-driven and shall conform to best practices on data storage; security and integrity; and
- Set up consumer help desks (physical and online) at its main office and coordinating centres.

Permissible activities

- Accept deposits from individuals and small businesses, which shall be covered by the deposit insurance scheme;
- Carry out payments and remittances (including inbound cross-border personal remittances) through various channels within Nigeria;
- Sale of foreign currencies realised from inbound cross-border personal remittances to authorised foreign exchange dealers;
- Comply with provisions of the extant Foreign Exchange Regulations of the CBN;
- Issue debit and pre-paid cards in its name;
- Operate electronic wallet;
- Render financial advisory services;
- Invest in Federal Government of Nigeria (FGN) and CBN securities; and
- Carry out such other activities as may be prescribed by the CBN from time to time.

Non-permissible activities

- Grant any form of loans, advances and guarantees (directly or indirectly). They may lend to their employees in line with their employee loan policy, subject to the approval of their Board;
- Accept foreign currency deposits;
- Deal in the foreign exchange market except as prescribed;
- Insurance underwriting;
- Undertake any other transaction which is not prescribed by these Guidelines;
- Accept any closed scheme electronic value (e.g., airtime) as a form of deposit or payment;
- Establish any subsidiary except as prescribed in the CBN Regulation on the Scope of Banking and Ancillary Matters, Nov. 3, 2010.

Source: CBN. (2021). Supervisory Framework for Payment Service Banks, 2021.

In licensing PSBs, Nigerian regulators have recognised the power of mobile technology and digital financial services to enhance financial inclusion in emerging economies around the world. Mobile platforms have enabled more affordable, convenient and accessible services for end users, and helped providers deliver services efficiently by maximising economies of scale, increasing the speed, security and transparency of transactions and enabling the provision of tailored products and services in other countries in Africa at an unprecedented rate.

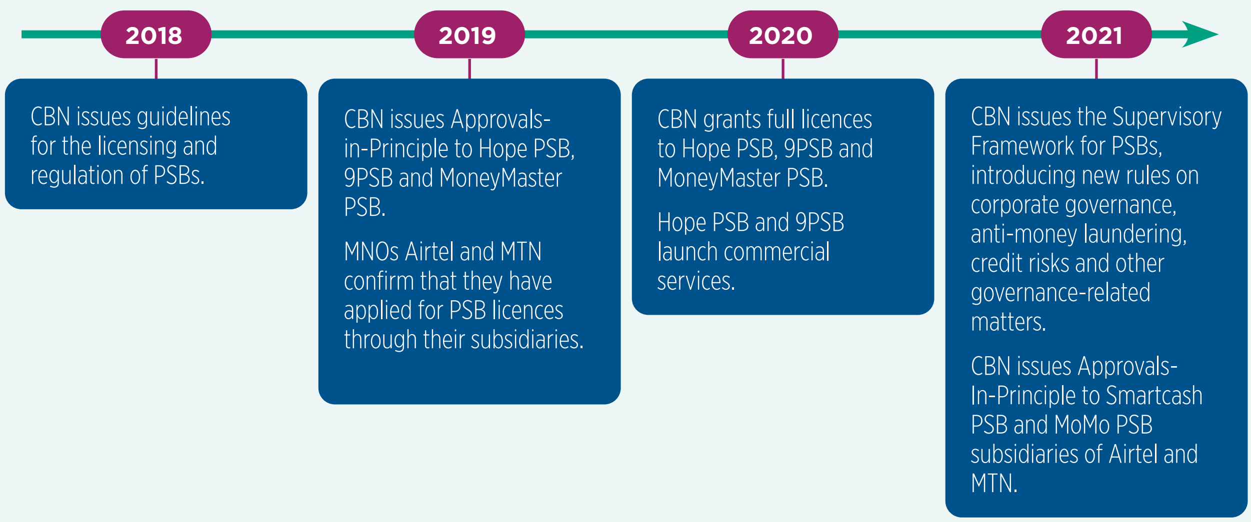
In contrast with the MNO-led approach to financial inclusion adopted by other countries in the region, such as Ghana and Kenya, Nigeria has opted for a bank- and corporate-led model for mobile money services. This has not had the desired impact on financial inclusion, with formal financial services yet to reach large swathes of the population. It is hoped that technology-enabled PSBs will have more success in achieving financial inclusion goals under this model.

Mobile network operators can only set up PSBs by establishing a subsidiary company and maintaining an "arm's length" relationship, the parameters of which are not yet clearly defined. This is to maintain a distinction between the regulatory oversight of telecoms companies under the National Communication Commission (NCC) and financial institutions, regulated by the CBN.

> "The PSB licensee doesn't report to the NCC because they don't fall under NCC regulatory purview; the parent telco company does. Part of the conditions for a PSB or super-agent licence was that to avoid any regulatory overlaps, they are to get the licences through a subsidiary company, or a super-agent banking licence. Once you get the banking licence the commission cannot regulate the banking segment of your business. This is under the Central Bank of Nigeria."
>
> **– Stakeholder interview**

Figure 2

Timeline of the development of PSBs in Nigeria



Source: GSMA Mobile for Development

1.2 Enabling factors for PSBs

To advance financial inclusion for the unbanked and underbanked in Nigeria, PSBs are positioned to leverage the following opportunities more effectively.

Increasing mobile connectivity and access

PSBs will rely heavily on technology and connectivity to deliver services to target customers, especially those without access to traditional banking services. Eighty-one per cent of adults in Nigeria own a mobile phone while just over 50 per cent use formal financial services.[15] This gap is an opportunity for PSBs to bring those who are connected, but unbanked or underbanked, into the formal financial services ecosystem.

More than 98 per cent of Nigeria's population live within reach of a mobile network (2G, 3G or 4G).[16] Approximately half of those who own mobile phones access the internet, although this is changing rapidly; 19 million internet users were added between 2020 and 2021.[17] Reasons for low internet use include energy poverty, poor infrastructure and therefore erratic and slow broadband service and relatively expensive data compared to average monthly earnings. But the growth in internet penetration and the uptake of smartphones, which is predicted to steadily increase, presents a huge opportunity for digital financial inclusion.

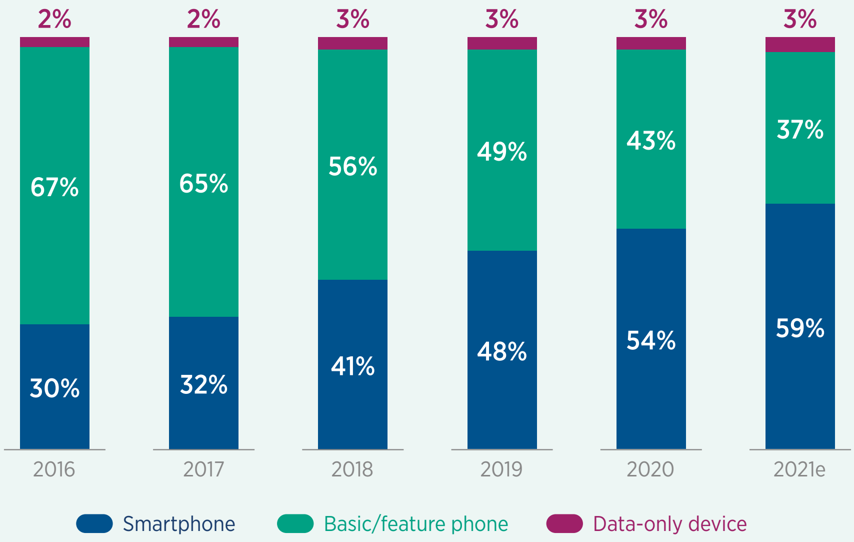
Although smartphone use in Nigeria is rising steadily, more than a third of connections are still basic or feature phones (Figure 3). This means that USSD will remain a relevant channel for service delivery for the foreseeable future.

15 EFInA. (2021). Access to Financial Services in Nigeria Survey 2020.
16 Data from GSMA Intelligence.
17 DATAREPORTAL. (2021). Digital 2021: Nigeria.

Figure 3

Adoption of mobile devices in Nigeria

Percentage of total mobile connections



e=estimate
Source: GSMA Intelligence

Increase in financial access points

Historically, traditional banks in Nigeria have struggled to extend financial services to underserved areas due to the low cost-benefit ratios of operating physical branches in those locations. The IMF 2021 Financial Access Survey Trends and Developments data revealed that traditional banks closed a total of 234 branches and 649 ATMs in 2020, which lowered Nigeria's Financial Access Score (FAS) from 4.78 in 2019 to 4.44 in 2020.[18]

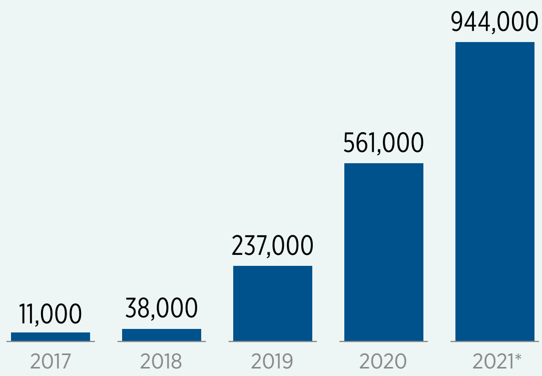
In EFinA's 2020 survey, 27 per cent of survey respondents indicated that lack of access to formal financial services was an obstacle to financial inclusion. This was the second most reported obstacle after erratic income.[19] Recognising that the cost of operating bricks-and-mortar banks in rural areas was unviable, the CBN announced guidelines[20] for the roll-out and regulation of agent banking in 2013.

18 See the IMF Financial Access Survey trends and developments.
19 EFinA. (2021). Access to Financial Services in Nigeria Survey 2020.
20 CBN. (2013). Guidelines for the regulation of agent banking and agent banking relationships in Nigeria.

As an additional measure, in 2019, the CBN, along with private banks and other players in the financial ecosystem, set up the Shared Agent Network Expansion Facility (SANEF), to promote growth and collaboration in the agent network. SANEF has far exceeded their target to reach 500,000 agents by 2020 (Figure 4).

Figure 4

Number of banking agents in Nigeria



*As of November 2021
Source: CBN, SANEF

As of November 2021, there were 944,000 agents in the SANEF network, equivalent to approximately 890 agents per 100,000 adults. While this is lower than in more advanced mobile money markets (Kenya has more than 1,000 agents per 100,000 adults),[21] it is significantly higher than the penetration of bank branches,[22] with 4.3 commercial bank branches per 100,000 adults and 16.73 ATM machines per 100,000 adults in 2018, according to the World Bank statistics on financial access in Nigeria.

PSBs already have an advantage in establishing last-mile agent networks due to access to the pre-existing distribution networks of their parent companies. They can also build new partnerships with local businesses and corporate organisations with extensive downstream assets, such as e-commerce organisations with rural distribution channels. In addition, they could leverage existing agent banking infrastructure by collaborating with organisations such as SANEF and the Association of Mobile Money and Bank Agents in Nigeria (AMMBAN). Given that SANEF is an initiative supported by commercial banks (deposit money banks), partnerships between the agent network and PSBs must be agreed on mutually beneficial terms.

If agreed, it would help to expand financial inclusion rapidly since PSBs could:

- Avoid the duplication of agents in already served areas and focus on the roll-out of agents in underserved areas;
- Expand their footprint faster and more efficiently;
- Benefit from the experience and expertise of existing banking agents, especially in more challenging locations; and
- Benefit from existing programmes to improve agency banking services in Nigeria, such as product development and financial literacy programmes.

“There is scope for partnership between PSBs and SANEF. But the question will be what do PSBs bring to the table for the partnership to serve both parties?”

– Stakeholder interview

21 Calculation based on data from the Central Bank of Kenya.
22 CBN. (2020). The National Financial Inclusion Strategy: 2019 Annual Report.

Tiered know-your-customer (KYC) identity system

For many people, the lack of valid identification and unclear KYC requirements have been major barriers to accessing traditional banking services.[23] To open an account at a commercial bank, customers currently need to provide valid identity documents, references and a utility bill. According to the National Identity Management Commission (NIMC), in 2021, only 60 million Nigerians had a national identity number (NIN). Youth and women are less likely to have utility bills in their name, and remote and rural informal business owners and farmers may not have verified addresses and references. All these have created additional challenges to advancing financial inclusion within the traditional banking system.

To speed up the customer on-boarding process, the CBN has introduced a three-tier KYC standard for PSBs to enable flexible account opening requirements for low- and medium-value accounts (see Table 3).[24] This allows PSBs to open entry-level accounts using a prospective customer's basic information and registered phone number as proof of identity.[25]

Table 3

Selected features of the three tiers of PSB KYC regulations

Tier 1	• Basic customer information (name, date and place of birth, passport photo, gender, address, phone number, etc.). • Basic information may be sent electronically or submitted on-site at a bank branch or agent location. • Evidence or verification of information provided by a customer are not required. • Maximum single deposit of NGN 50,000 and maximum cumulative balance of NGN 300,000 allowed at any time. • International funds transfer is prohibited, and accounts are strictly savings.
Tier 2	• Evidence of basic customer information is required. Documents may be forwarded electronically or submitted on-site. • Basic customer information must match official databases, such as the National Identity Management Commission (NIMC), Independent National Electoral Commission (INEC) Voters Register or Federal Road Safety Commission (FRSC). • Maximum single deposit of NGN 200,000 and maximum cumulative balance of NGN 500,000 allowed at any time.
Tier 3	• PSBs to obtain, verify and maintain copies of all required documents for opening of accounts in compliance with the CBN's KYC requirements. • Maximum single deposit of NGN 5,000,000 and no limit on cumulative balance.

Source: CBN Supervisory Framework for Payment Service Banks, 2021[26]

23 However, the on-going eID programme and the requirement to map mobile lines to National Identification Numbers (NINs) provide a new channel to identify customers. More than 67 million people have been registered for NIN as of October 2021. See: Odutola, A. (12 November 2021). "67 million people have registered for NIN, says Pantami". Nairametrics.

24 CBN. (2021). Supervisory Framework for Payment Service Banks.

25 The requirement for all bank account owners to enrol for a Bank Verification Number (BVN), an 11-digit identification number for verification at all banks and points of transaction, had been linked to the slow pace of financial inclusion, given that BVN access points and enrolment requirements were often out of reach of target segments. However, the SANEF initiative is helping to accelerate and simplify BVN enrolment in rural areas. Total BVN enrolment reached 50 million in September 2021, an increase of just over four million during the first nine months of the year. See: Chukwunyem, T. (22 September 2021). "BVN Registration Crosses 50m Mark". (September 2021). New Telegraph. In addition, the National Identity Management Commission (NIMC) has begun the process of harmonising the BVN and NIN in line with the government's plan to develop a digitised identity system and harmonised national database. A singular identification system will help address the KYC barrier for excluded populations. See: Abubakar, B.I. (11 June 2021). "In the throes of SIM-NIN linkage policy". The Guardian Nigeria.

26 CBN. (2021). CBN Supervisory Framework for Payment Service Banks, 2021.

Maturing payments infrastructure

Instant payments and interoperability are important enablers of digital financial services (DFS) and serve as incentives as people transition away from cash. A modern payments infrastructure in Nigeria will serve as a key enabler for PSBs. In fact, the EFinA 2020 Financial Services Access Survey showed a 13 per cent increase in digital payments between 2018 and 2020, the largest increase of all digital banking products.[27]

The CBN has implemented various payment strategies to encourage innovation and interoperability in the DFS ecosystem. Launched in 2007 and revised in 2013, the Payment System Vision (PSV2020) focused on the shift to cashless transactions and the growth of digital payments systems. In 2019, the CBN began to develop PSV2030, which was updated to a five-year roadmap as PSV2025. As part of this vision, the CBN is supporting open banking so that banks are not exclusive holders of data. They are also recognising the rapidly evolving role of digital technologies in the financial sector, including the application of blockchain, big data and artificial intelligence.[28]

While Nigeria has an advanced payments infrastructure, it is also fragmented. Financial service providers (FSPs) are required by policy to connect to the Nigeria Central Switch (NCS) facilitated by the Nigeria Interbank Settlement System (NIBSS). The NIBSS provides a range of interoperable payment solutions and supports interbank credit and debit transactions, electronic funds transfers, automated cheque clearing, real-time account-to-account payments and, more recently, quick response (QR) code payments. Statistics from NIBSS show that e-payments via mobile are increasing. With 43 per cent of total e-transactions, mobile is the preferred channel for payments followed by USSD, which accounts for 35 per cent of transactions. In addition, mobile payments and USSD have continued to experience steady growth, increasing by 84 and 80 per cent year on year, respectively.[29]

Nigeria has the most vibrant fintech ecosystem in the region, with over 144 fintechs primarily offering payments and lending solutions.[30] Several commercial entities also offer payment processing services, switching infrastructure for routing payments, local and international card schemes and other payment solutions. However, integration with multiple platforms could prove costly and complex for PSBs, which would have to establish a unique partnership with each platform.

> "The opportunity to advance financial inclusion via PSBs is great. With two other big players entering the market, we could reach 30 or 40 million people in the next few years. The key is a good distribution strategy which rapidly and cost-effectively brings people into formal financial services. It is crucial to get the technology right."
>
> **– Stakeholder interview**

27 EFinA. (2021). Access to Financial Services in Nigeria Survey 2020.
28 CBN. (14 May 2019). "Request for information on Payments System Vision 2030".
29 NIBBS. (15 April 2021). "NIBBS Insight (3rd Edition): Instant Payments – 2020 Annual Statistics". NIBSS Blog.
30 See Statista. Number of fintech start-ups in Nigeria from 2017-2021 and USAID. (2019). Nigerian Payments Landscape.

1.3 Opportunities for collaboration in the financial services ecosystem

PSBs join an already diverse financial services ecosystem in Nigeria. At one end of the spectrum are traditional deposit money banks (DMBs), and at the other end are fintech companies, which have emerged recently as key players in the financial services ecosystem by using technology to make financial products and services more accessible to everyday customers. PSBs lie in the middle with a hybrid model that is like DMBs in terms of products and regulations, but more akin to fintech companies in terms of agile service delivery and customer engagement.

PSBs' engagement with other service providers in the financial ecosystem depends on the prevailing regulations and commercial imperatives. While there will be instances of competition due to overlaps in target customers and service offerings, there are also opportunities for collaboration. With the banking sector facing challenges globally, there has been a shift in attitudes from competition to collaboration and a rising trend of partnerships between banks, telecoms operators and fintech players, leveraging the strengths of each to the benefit of all.

Key advantages of PSBs that are the subsidiaries of mobile network operators include their customer reach, experience in other mobile money markets, large pre-existing distribution networks including in rural areas and technological agility. For banks and other players in the financial ecosystem to reap maximum benefits from PSB partnerships, they must be able to leverage these resources of the PSBs' parent companies based on mutually beneficial arrangements. Notably, one of the challenges of forming partnerships is the numerous, sometimes conflicting or unclear regulations governing each category of participant in the financial ecosystem including payments solutions providers, banks, mobile money operators, banking agents, super-agents and PSBs.

Deposit money banks (DMBs)

Given that DMBs primarily serve urban populations and the urban market is saturated, PSBs must differentiate themselves by serving unbanked populations in rural areas. This largely untapped segment of the market has considerable potential for sustained customer growth for service providers despite the challenges associated with operating in rural locations, including high operating costs and low transaction volumes.

Based on the regulatory framework, PSBs will rely on DMBs for cash management services as all excess funds in a PSB's operational float are to be deposited with a DMB. In addition, depending on changes in regulatory provisions, DMBs could use PSBs as a channel for loan services by leveraging their access to rural populations and meeting a critical financial need. A good example of this is in India, where Paytm PB has a partnership with Suryoday Small Finance Bank and IndusInd Bank to offer customers term deposit accounts, and with HDFC Bank to offer customers credit cards. Jio PB in India offers a credit-scoring service to their customers so they can apply for loans with commercial banks. In an enabling regulatory environment, PSBs in Nigeria could similarly partner with DMBs to offer much-needed services, enabling financially excluded populations to obtain useful financial products without taking on prudential risk.

PSBs and DMBs could also work together to streamline access points and other banking infrastructure, such as ATMs, reducing costs for both.

Fintech companies

Fintech companies use technology to improve access to financial services and address inefficiencies in service delivery. With three fintech "unicorns",[31] more than anywhere else in the region, the fintech sector in Nigeria has been flourishing. Fintech activities in Nigeria cut across multiple services and products, including payments, lending, savings, investment and insurance. Some of these activities, for example, payments and savings, overlap with key PSB offerings. In many ways, PSBs operate as fintech companies, using mobile wallets and other digital interfaces to improve the customer experience and service delivery.

However, there is scope for synergy and collaboration between PSBs and fintech companies that could make building an end-to-end value chain for financial services unnecessary. PSBs could, for instance, help to extend the services of a fintech partner to rural areas. PSBs could also open their infrastructure to fintech companies to integrate with and promote innovation in specific solutions, including the development of key products for target customer segments. In one such example, 9PSB has partnered with Nigerian fintech Flutterwave to "create a seamless payment ecosystem by aggregating and simplifying transactions for banking agents, merchants, and consumers."[32] In other countries in Africa, Flutterwave has partnered with MTN Mobile Money to allow their business customers to pay and accept payments via MTN's mobile wallet,[33] enabling more e-commerce transactions. In India, Indipaisa, a fintech offering payment solutions to small and medium-sized businesses, announced a partnership with NSDL PB in December 2021 to deliver customised financial products to small merchants.[34]

> "There is a possibility that partnerships with PSBs, depending on their geographical reach and our expansion strategy, could really help us get critical products that so many small businesses and low-income customers need, such as loans of course and savings products and insurance. It could help us expand our services rapidly and cost-effectively and meet people's financial needs."
>
> **– Fintech stakeholder interview**

31 A unicorn is a privately held start-up company valued at more than $1 billion.
32 Flutterwave. (21 September 2021). "Flutterwave, 9PSB Partner to Boost Growth of Inclusive Financial Services in Nigeria".
33 MTN. (9 September 2021). "MTN Group announces new mobile money partnership with Flutterwave across Africa." Press release.
34 The Economic Times. (26 December 2021). "Indipaisa partners with NSDL Payments Bank to launch a new Fintech platform targeting India's flourishing 63 million SME sector."

Non-bank financial institutions

Non-bank financial institutions (NBFIs) facilitate alternative financial services, such as investment, risk pooling, brokering and money transmission. Examples of NBFIs in Nigeria include insurance firms, pension fund administrators (PFAs), remittance companies, discount houses and *bureaux de change*. The CBN guidelines currently prohibit PSBs from offering insurance services. PSBs can also only engage with NBFIs subject to approval from the CBN. However, opportunities still exist for PSBs to offer valuable products to unbanked and underbanked populations in pensions and remittance services. In India, Fino PB, India Post PB, Paytm PB and Airtel PB are working in partnership with NBFIs to offer their customers insurance and pension products, and Paytm PB has recently formed partnerships with remittance service providers to facilitate international inbound remittances directly into a customer's digital wallet. These partnerships are relatively new. While it is too early to assess revenue impacts, they are part of a growing trend in remittance service partnerships.

For many unbanked people, PSBs will be an important first step in their financial inclusion journey. The opportunity and need is vast, with the EFinA 2020 Financial Access Survey showing that only 30 per cent of adult Nigerians have or use non-bank formal financial products, with pensions at 7 per cent, loans from micro-finance banks at 2 per cent and insurance also at 2 per cent of all adults, in 2020.[35] By opening a pathway to financial inclusion through microsavings, cash-in/cash-out (CICO), payments and remittances, PSBs could also pave the way for customers to use more sophisticated financial products and services via NBFIs. As PSBs grow, regulation could evolve to maximise gains for all players in the financial ecosystem and meet financial inclusion goals while offering these critical products.

Informal savings and credit groups

Due to low rates of financial inclusion in Nigeria, several informal financial services arrangements operate. The most notable ones include rotating savings and credit associations and cooperatives, locally known as *Esusu*, *Ajo, Utu* or *Adashi* depending on tribal identity. *Esusu* agents keep paper records of financial transactions and oversee the management of funds, with the associated risk of errors and theft.

A number of fintechs and banks have introduced initiatives to formalise these arrangements through digital *Esusu*. Access bank and Stanbic IBTC bank in Nigeria offer financial products that can be utilised by a group of people to digitise and formalise *Esusu*.[36] Jamborrow[37] is a fintech that digitises informal *Esusu* arrangements using blockchain and AI technology, and then connects members of village savings groups to services such as insurance, credit, and even healthcare providers. esusu.africa is another fintech that digitises operations and cash management for micro-finance institutions and *Esusu* agents.

PSBs could partner with fintech companies and with banks trying to deliver these services to the last mile, but the regulatory restriction on lending in partnership with third parties may mean a limited business case for partnerships. However, PSBs could build and deliver products to facilitate and manage *Esusu* and other informal community-based financial arrangements.

35 EFinA. (2021). Access to Financial Services in Nigeria 2020 Survey.
36 See Access Bank Press Release (19 September 2016). Eliminating old "Ajo" system by PayWithCapture.
37 See Jamborrow website.

02

Key lessons from payments banks' experience in India

In August 2015, the Reserve Bank of India (RBI) issued an AIP to 11 of 41 applicants to establish PBs within six months. Four of the 11 dropped out by late 2016, and a fifth, Aditya Birla Idea PB, closed in September 2019, 20 months after commencing operations. Lying somewhere between traditional banks and fintech payments service providers but with more regulatory limitations on their revenue streams than both, PBs in India have not had a level playing field.

There are currently six PBs that are still operational; these are Airtel PB, India Post PB (IPPB), Fino PB, Paytm PB, NSDL (National Securities Depository Ltd.) PB and Reliance Jio PB. Three of them are now profitable, suggesting that with a targeted strategy accompanied by enabling regulatory evolution, service banks may be able to extend financial inclusion and thrive commercially despite the limitations if they can sustain themselves during the early years of operations.

This section summarises key lessons from driving financial inclusion in India through PBs. As the PSB ecosystem in Nigeria is still in its infancy, these lessons and use cases can help inform how PSBs in Nigeria might create a value proposition and a successful, sustainable business model.

2.1 Access points

As of September 2021, PBs had a combined network of at least 1.5 million touchpoints[38] around India. For context, traditional banks in India have a combined network of just over 120,000 physical branches.[39] Key to the success of this rapid rollout was the ability of PBs to leverage existing distribution networks and the experience of downstream operations to serve customers in rural and underserved areas. For example, Airtel PB leveraged the retail footprint of its parent company, the MNO Bharti Airtel, to quickly establish a network of more than 500,000 access points between 2016-2021 that includes Airtel outlets, informal airtime vendors and neighbourhood *kirana* stores. IPPB, which is owned by the Department of Post, has used that relationship to build a distribution network of post offices across India. Its pre-existing physical footprint in rural and remote areas has enabled IPPB to offer "doorstep banking" to its customers to open accounts and carry out transactions via post officers who were already delivering mail, offering an optimal solution for end users with low literacy levels. In 2016, as it prepared to launch, Fino PB partnered with state-owned Bharat Petroleum, which took up a 21 per cent stake in the bank and utilised its national petrol stations to offer banking services. Fino PB currently has a presence in ninety per cent of India's districts with over 72,000 banking outlets, 54 bank branches and 130 customer service points.

2.2 Revenue model

PBs are permitted to offer remittance and payment services, as well as everyday banking services. Key services include deposits and withdrawals via ATM/debit cards, mobile and digital payments, doorstep banking, bill payments, funds transfer across the interbank payment network, withdrawals and shopping at merchant POS. PBs are also permitted to deal in third-party financial products, such as insurance and pensions, carry out transactions for other banks through their business correspondents (BCs) and undertake non-risk activities, such as Aadhaar (identity) enrolment or become members of clearing houses.

The revenue model of PBs has been challenged by their inability to lend and earn interest from credit services. Although this restriction was intended to protect PBs against non-performing assets, a major challenge in India over the past decade, it puts them at a disadvantage compared to commercial banks.

Furthermore, PBs are required to maintain 75 per cent of their deposits in government securities, but the drop in yields in the past three to four years in India has put pressure on their earnings. This has been blamed for the sharp drop in interest rates offered by PBs on deposits, from an average of 5.3 per cent in 2017 to 2.7 per cent in 2020.

Despite these limitations, three payments banks have achieved profitability, primarily through customer acquisition and transaction revenues. By end of December 2021, 97 per cent of Fino PB's revenues were from transactions, but it took three years to achieve profitability. Paytm PB launched in 2017, was the first payment bank to turn profitable within two years of operations, and in 2020 recorded a majority of profits by increasing customer acquisition, through savings accounts and transactions. Airtel PB turned profitable by September 2021, driven by a surge in savings accounts and customer acquisition.

38 GSMA Intelligence calculation based on company results and news articles.
39 RBI. (29 December 2020). "Appendix Table IV.7: Branches and ATMs of Scheduled Commercial Banks".

2.3 Partnerships and profitability

PBs were expected to have low operational costs given their greater use of technology, low-cost infrastructural footprint and mix of channels. For example, IPPB offers QR cards that use QR codes to scan and pay, rather than issuing debit cards and POS devices. However, the narrow scope for revenue generation has weighed heavily on margins and profitability. To offset this impact, PBs have sought to increase the volume and value of transactions, for which they charge up to 1 per cent commission, by enhancing their product offering through partnerships.

Most PBs in India now offer payment solutions for multiple products from third-party companies in various sectors, including international in-bound remittances, loans, insurance, transport and e-commerce, as well as facilitating the delivery of government social assistance. In addition to the partnerships mentioned earlier:

- Paytm PB has partnered with major auto manufacturers for FASTags[40] under the National Electronic Toll Collection programme. In July 2021, Paytm PB became the first bank in India to issue 10 million FASTags, equivalent to nearly 30 per cent of all FASTags issued by 32 banks in the country.[41]
- IPPB has formed partnerships with Tata AIG General Insurance Co. Ltd. to distribute non-life insurance products across the country,[42] and with Bajaj Allianz Life Insurance Company (BALIC) to offer term and annuity products to their customers.[43]
- Fino PB is partnering with commercial banks and Non-Banking Financial Companies (NBFC) to source gold loans on their behalf by leveraging their extensive retail network. In FY20, Fino PB facilitated gold loan sourcing worth $133 million for more than 30,000 customers in partnership with a commercial bank.[44]

The PBs also act as banking correspondents (banking agents) for commercial banks and small finance banks (SFBs), enabling them to serve regions where their business models had previously been unviable. Partnerships have enabled PBs to boost transaction volumes and value significantly. As previously mentioned, transactions account for 97 per cent of Fino PB's revenue while the remaining 3 per cent comes from net interest income.[45] This was a major factor in three of the six active PBs – Airtel PB, Fino and Paytm PB – becoming profitable in recent years and suggests that the model can be commercially viable if operators have the capabilities to quickly scale their operations, manage their capital investment and build the right partnerships to capture new opportunities in underserved segments of the market.

40 An electronic toll collection system operated by the National Highway Authority of India.
41 The Connect. (29 July 2021). "Paytm Bank Becomes 1st FASTag Crore Pati". Business News Connect.
42 The Hindu. (23 September 2021). India Post Payment Bank ties up with Tata AIG General Insurance.
43 BusinessToday.In. (11 November 2021). India Post Payments Bank and Bajaj Allianz Life Insurance tie up to offer term and annuity products.
44 Fino Payments Bank. (November 2020). "Fino Payments Banks aims Rs 2000 crore gold loan sourcing business for partners riding on rural revival in FY21". Press release.
45 Iyer, P. (29 October 2021). "Fino Payments Bank proves fintechs can be profitable: MD & CEO Rishi Gupta". Money Control.

2.4 Regulatory developments

PB regulations in India have been evolving as the market matures. In November 2020, it was reported that the Reserve Bank of India (RBI) would allow PBs to convert to SFBs after three years of operation.[46] This is an important step as it would enable service providers to strengthen their revenue model by providing credit at scale to small businesses and individual customers.

In August 2021, the Securities and Exchange Board of India (SEBI) approved payments for initial public offerings (IPOs) through PBs, effectively allowing them to carry out the activities of investment bankers. This means that PBs, with approval from the RBI, will be eligible to act as a banker to an issue (BTI), subject to fulfilment of associated conditions.

The RBI also doubled the deposit limit on accounts held at payments banks from 1 lakh Indian rupees to 2 lakh Indian rupees ($2618) in April 2021. This supported the momentum in digital banking, increasing payments banks' revenue streams as they turned profitable.

46 RBI. (20 November 2020). "RBI releases the Report of the Internal Working Group to Review Extant Ownership Guidelines and Corporate Structure for Indian Private Sector Banks". Press release.

03

The business case for PSBs in Nigeria

The success of PSBs in Nigeria will be measured by their ability to extend financial services to unserved locations and offer a portfolio of products with sufficient value to drive uptake and use among unbanked and underbanked populations, particularly in rural areas. To achieve this, PSBs will need to build scalable and commercially viable operations, and maximise the opportunities of a high-volume, low-value revenue model.

3.1 Competitive landscape

Nine companies initially applied to the CBN for a PSB licence.[47] Three companies – Hope PSB, 9PSB and MoneyMaster PSB – received full licences in August 2019. In November 2021, MoMo PSB and Smartcash PSB received AIP to operate PSB services with a full licence subject to meeting specific requirements within six months of the AIP. This could bring the number of PSBs in Nigeria to five. Table 4 shows the current market landscape.

According to CBN guidelines, the following categories of companies are eligible to establish a PSB: banking agents; MNOs through subsidiaries; retail chains; postal services providers; mobile money operators (MMOs); switching companies; fintech companies; and financial holding companies. It is expected that companies in these categories possess the capabilities, resources and expertise in downstream operations to effectively roll-out services in underserved and hard-to-reach locations.

Table 4

The PSB market landscape

	Status	Parent company	Distribution capabilities and resources
Hope PSB	Launched commercial services (November 2020)	Unified Payments	10,700 direct agents and access to the agent network of PayAttitude partner banks
9PSB	Launched commercial services (November 2020)	9Mobile	More than 6,000 direct and 50,000 indirect agents across Nigeria
MoneyMaster PSB	Plans to launch commercial services in 2022	Glo Mobile	Plan to leverage on Glo's distribution network to build a network of up to 150,000 agents across Nigeria
MoMo PSB	Awaiting full licence	MTN	MTN distribution network and more than 630,000 MoMo agents across Nigeria
Smartcash PSB	Awaiting full licence	Airtel	Airtel distribution network and plan to deploy a super-agent network following AIP in November 2021[48]

Information accurate as of November 2021.
Source: GSMA Mobile for Development

In Nigeria, MNOs have important technical capabilities and extensive distribution networks to support PSB services. They can also draw on the experience and customer insights they have gained from providing services to consumers across socio-economic segments and geographical locations, many of whom are unbanked or underbanked, to drive product development and service delivery. Four of the five licensed and prospective PSBs are promoted by telecoms operators, a recognition that MNOs can drive financial inclusion. This has been demonstrated by the transformational impact that mobile money services have had on financial inclusion in other countries in Sub-Saharan Africa, and the commitment of regulators to use those capabilities to advance financial inclusion in Nigeria.

47 Okonji, E. (6 February 2020). "Glo, 9Mobile Intensify Efforts to Commence Operations as PSBs". This Day.
48 Airtel Africa. (15 November 2021). "Approval in principle for super-agent licence in Nigeria". Press release.

3.2 Target customers

There is a compelling business case for PSBs to target customers in urban areas, especially in terms of commercial viability. Key informants suggest that PSBs require a critical mass of high-volume and high-value transactions in urban areas to offset the impact of low-volume and low-value transactions in rural areas.

However, PSBs are the only licensed financial services category with a specific requirement to provide customer access points in rural areas (25 per cent). This would imply that PSBs would primarily target potential users in these areas, but the definition and metrics for this target remain unclear. For PSBs, customer growth potential is highest in rural areas given the proportion of unbanked and underbanked adults relative to urban areas, but there are concerns about profitability. PSBs would therefore need a pool of well-served, underserved as well as unserved customers. Figure 5 highlights some of the key considerations for PSBs for each of these customer segments.

Figure 5

PSBs' target customers

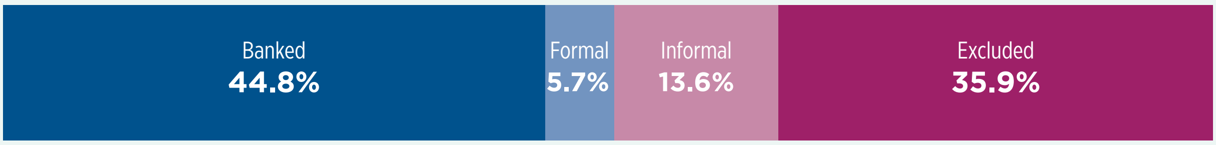
Percentage of total adult population (106 million), 2020

Formally banked
Adults who have access to or use financial services supplied by DMBs.

Formal other
Adults who have access to or use other financial institutions, such as MFBs and MMOs.

Informal only
Adults who have access to or use unregulated financial institutions, such as cooperatives or moneylenders.

Completely excluded
Adults who do not have access to or use any formal or informal financial products and services.



Formally included

Key features and considerations for PSBs:

- **Little or no barriers to financial inclusion** – mostly urban, financially literate and with a steady household income.
- **Competition with existing players** – well-served by DMBs, fintech companies and NBFIs.
- **Potential for high-value transactions** – PSBs need a critical mass of urban customers to be viable given low value transactions in rural areas.

Financially excluded and informally served

Key features and considerations for PSBs:

- **High barriers to financial inclusion** – mostly rural, financially illiterate and with low household income.
- **Significant potential for customer growth** – not currently served by existing formal financial institutions.
- **Potential for low profitability** – combination of high operating costs in rural areas and weak revenue potential from low-value transactions could weigh heavily on profit margins.

Sources: EFInA and GSMA Intelligence

3.3 Value proposition

Stakeholders estimate that once the two new market entrants Momo PSB and Smartcash PSB launch services, the total PSB customer base in Nigeria could reach 30 to 40 million in three years.[49] However, customer uptake may well be the easy part, as PSBs will need to drive usage and monetise those customer relationships. Data for 2019 from Nigeria Inter-Bank Settlement System (NIBSS) showed that out of approximately 125 million bank accounts, over 45 million were inactive. For financial inclusion, active accounts rather than account opening will be a key indicator of success. PSBs have a diverse customer base, including a potentially higher proportion of rural customers than other FSPs. Consequently, the PSB value proposition should appeal to customers across a wide range of segments. Below are some early value propositions, but it is expected more will emerge as the PSB market matures.

- **Competitive pricing:** Much of the financial inclusion efforts of DMBs have been constrained by the high cost of delivering services to the last mile using traditional models. PSBs anticipate a cost advantage by using a digital-first approach and optimising their channel mix. For example, MoneyMaster PSB is pursuing a mobile wallet-only strategy, including for agents. This will eliminate the costs and complexities associated with issuing cards and deploying POS devices at agent locations. PSBs also intend to minimise the deployment of ATMs, which can be expensive to maintain, especially in remote locations, and avoid establishing a physical branch network. The expectation is that the cost savings of an optimal channel strategy will be transferred to customers in the form of more affordable services. PSBs in the market have different distribution strategies based on which they feel offers the optimum solution between being able to service customers and controlling costs.
- **Efficient customer on-boarding:** PSBs offer quick, easy and remote on-boarding processes for new customers. Account opening in minutes, rather than days as in many traditional banking institutions, without the need for paperwork or to appear in person, could be a key selling point. Hope PSB enables customers to use their phone number as an account number, enabling faster services and a more integrated digital offering. This could be a boon for financial inclusion if it allows connected but unbanked adults around the country to open a PSB account. However, low literacy among much of the unbanked means that many would still require the support provided at a physical location or via a “doorstop banking agent” or mobile agent model. PSBs will need to be prepared to cater to this customer need by optimising their mix of access points cost-effectively. This could, for example, be done via distribution partners that already deliver a variety of consumer products to rural locations.
- **Tailored product offering:** Product offering will be a key value proposition for PSBs, particularly for price-sensitive customers in rural areas for whom cash transactions may be a cheaper and more practical option than the basic services currently on offer. Most financial services today are designed for the banked, rather than the unbanked, with other service providers often focusing on this segment due to the higher margin potential. The lack of suitably differentiated product offerings for the unbanked is an opportunity for PSBs to develop new value propositions.

49 Key informant interviews

An important first step would be to understand the financial needs of customers in this segment to ensure products add value. While the Lagos Business School has conducted important research on the needs of excluded groups, such as rural residents, women and youth in Nigeria[50] (see Table 5), the needs of unbanked segments are still poorly understood.

Table 5

Financial habits and behaviours of key target segments

Demographic categories	Product needs	
Unbanked rural residents, women and youth	• Tailored fixed savings products • Microloans	**All categories** • Financial and digital literacy, last-mile financial access points • Agent banking (CICO services) • Crop and community health insurance schemes • Micropension products
Underbanked rural residents, women and youth	• Tailored savings products and solutions (simple, targeted, fixed and group) • Individual and group loans (with insurance options) • Agri-based investments and collective investment schemes (mutual funds) • Merchant acceptance • Asset and business insurance	
Underbanked youth	• Digital payments, savings and microloans • Mutual funds • Financial education	
Underbanked and unbanked women	• Women empowerment schemes	

Source: Lagos Business School[51]

50 Olayinka, D.W., *et al.* (2020). Digital Financial Services in Nigeria: State of the Market Report 2020. Also see: Sustainable and Inclusive DFS. (8 December 2020). The State of Financial Product Innovation in Nigeria: Gaps & Opportunities.

51 Ibid.

3.4 Revenue model

The PSB revenue model is based on the current regulatory framework, which specifies a set of permissible and non-permissible activities (Box 1). As highlighted previously, some of the restrictions are unique to PSBs. For example, they are not permitted to offer credit, which is a key service for DMBs given that interest from loans typically accounts for more than half of their gross earnings.[52] In interviews, stakeholders indicated this would have an impact on profitability and customers' perception of value, but they also expressed optimism in the ability of PSBs to maximise the opportunities of permissible activities.[53]

> “Our strategy is designed very much without any reliance on lending as this is not allowed. Though it does have an impact, we expect to be able to succeed without lending products, with considered partnerships in a range of sectors and a well-thought-out distribution strategy that balances costs, reach and people's needs. Regulatory clarity on less clear elements of the PSB framework and consistency in policy would help, of course.”
>
> **– Stakeholder interview**

The main revenue sources for PSBs are:

- Transaction fees from cash transfers, cash-in cash-out (CICO) and collections; and
- Interest on investment in government bonds, with PSBs required to maintain at least 75 per cent of deposit liabilities in government securities.

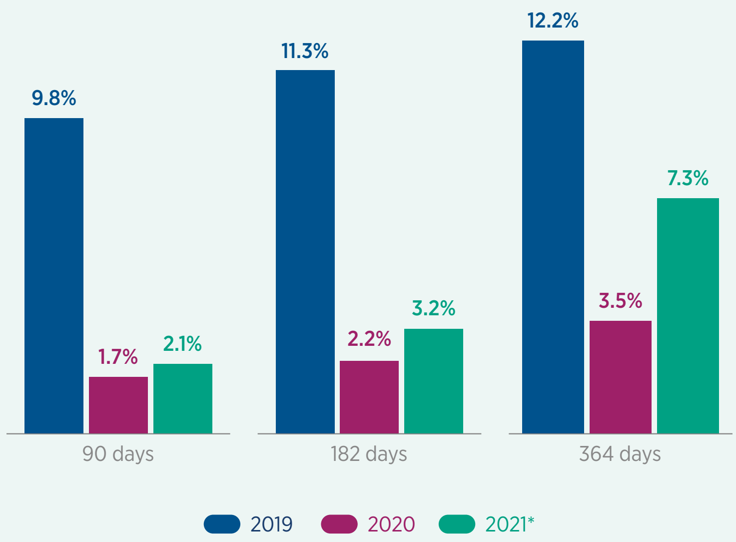
Since transaction revenue relies heavily on the volume and value of transactions processed, PSBs need to create multiple revenue streams to maximise opportunities and spread risk while relying on a few core strategic priorities. This is because, as a recent GSMA study highlights, there are significant risks involved in pursuing a revenue model based on CICO transaction fees.[54] Sudden pricing and regulatory changes, such as transfer fee waivers during the COVID-19 pandemic and the gradual shift to digital transactions, have resulted in fewer CICO transactions and challenged the revenue growth outlook from transaction fees.[55]

52 GSMA Intelligence analysis of audited financial reports.
53 Key informant interviews.
54 GSMA. (2021). Profitability 2.0: Ecosystem-driven business modelling & the future of mobile money margins.
55 Ibid.

Meanwhile, fluctuations in treasury bill rates are also creating uncertainties in that revenue source for PSBs. Figure 6 shows the trend in treasury bill rates published by the Nigeria Debt Management Office (DMO). The data shows a significant decline in average annual yields since 2019 (when the initial PSB licences were granted). Low returns on government bonds could squeeze PSB earnings and limit the interest rates they can offer for savings products. This, in turn, would make their product offering less competitive than other products on the market.

Figure 6

Treasury bill rates (annual average)



* January to September
Source: Debt Management Office, Nigeria

Stakeholders estimate that PSBs could break even within three to five years of operation based on the size of the market opportunity.[56] Considering the limitations of the revenue model, PSBs need to offer services that create sufficient value to increase transaction volumes. In addition to savings, transfers and CICO, PSBs currently offer bill payment services for third-party products, such as airtime, electricity and cable TV. Although this is an important first step, digital payments for these services are also available on other DFS platforms, so PSBs will need to scale and create value in untapped segments of the market.

"While PSBs certainly face challenges, there is a success story in India and that means that with the right set of capabilities and resources PSBs can succeed in advancing financial inclusion and sustain themselves. The question is what is that set of capabilities and how can we ensure that key stakeholders are playing their role in acting as enablers and facilitating collaborations and truly driving financial inclusion in rural areas through the right products rather than just opening accounts."

– Stakeholder interview

56 Key informant interviews

3.5 Potential partnerships

One way to build commercial sustainability while also demonstrating the benefits of financial inclusion to unbanked and underbanked groups is to partner with organisations providing products of value to them. This requires identifying the right partners across the public and private sectors and agreeing to mutually beneficial terms. Below, we highlight opportunities for payments, distribution and product partnerships with organisations in different sectors.

It is important to note that the value and associated costs are not uniform across Nigeria given the diverse socio-economic factors at play. In addition, PSBs will need to build and scale partnerships quickly to sufficiently differentiate their product offering and increase revenues and profitability.

> "Partnership requests between PSBs and other players will need to be assessed by the CBN on a case-by-case basis, with the fundamental criteria being that they must advance financial inclusion."
>
> **– Stakeholder interview**

Sectors with significant potential for partnerships

Financial services

Microloans and microinsurance services are key services for the unbanked, many of whom run small enterprises, and can unlock new forms of commerce, build creditworthiness and expand financial inclusion. Only 3 per cent of Nigerian adults have access to credit, 2 per cent to insurance and seven per cent to a pension. These numbers are far below the CBN's target of 40 per cent for these three services by 2020.[57] Current regulations do not allow PSBs to provide loans either directly or in partnership, or to underwrite insurance, but if the PSB can act as a channel for DMBs offering loans, this would likely bring Nigeria closer to its financial inclusion goals by enhancing the value proposition.

In addition, remittances from Nigeria's diaspora reached USD 17.2 billion in 2020.[58] According to Cenfri, remittance flows to Nigeria are heavily underestimated; approximately 50 per cent of flows sent through informal channels are not captured.[59] Most international remittances sent via formal channels come through money transfer operators (MTOs) licensed to send cross-border remittances. According to Findex (2017), of the 51 per cent of Nigerians that sent remittances, only 14 per cent used a mobile phone.

With their technological infrastructure and wide geographical reach, PSBs are likely to have a significant advantage in overcoming the barriers to formal remittance services. In India, Paytm PB recently announced a partnership with Ria international money transfer, and more recently with MoneyGram, to become the first platform in the country to accept international remittances directly into a digital wallet.

Mobile and digital channels for remittance services have seen an uptick due to the COVID-19 pandemic.[60] Mobile money services globally have remained the cheapest option to transfer remittances, and traditional remittance service providers (RSPs) are increasingly partnering with mobile money providers to deliver remittances. In Africa, Western Union has also formed partnerships with several banks for digital cross-border transfers.[61] Productive partnerships between RSPs and PSBs should therefore benefit both parties. To maximise this opportunity, regulators need to encourage partnerships through enabling regulations and timely approvals of partnership requests.

57 EFInA. (2021). Access to Financial Services in Nigeria Survey 2020.
58 Lawal, A. (19 August 2021). "Nigeria's diaspora may have switched to cryptocurrency as official remittances fall by $6bn". The Africa Report.
59 Cenfri. (June 2019). "Remittances in Nigeria". Exploring barriers to remittances in sub-Saharan Africa series, volume 6.
60 GSMA. (2021). Mobile Money Remittances: Supporting Lives During a Crisis.
61 Global Forum on Remittances, Investment and Development. (7 October 2021). "Western Union partners with African banks for easy cross-border transfers". GFRID What's On.

Government services

Many government-to-person (G2P) payments, such as social protection programmes, subsidies and fee waivers or salaries for public workers, can be improved through digital technologies.[62] Digitising these payments offers the benefits of transparency, efficiency, cost-savings and convenience, and can also stimulate financial inclusion.[63]

In Nigeria, different levels of government run social welfare programmes that disburse cash to recipients, for example, the National Social Investment Programme's (NSIP) conditional cash transfer (CCT). The National Social Register includes around 32.6 million people from 7 million poor and vulnerable households.[64] Using PSBs to deliver payments in rural communities can ensure last-mile customers receive their payments with ease.

The COVID-19 pandemic, and reliance on cash in many instances to deliver social welfare, highlight the opportunity for the digitisation of G2P payments. For instance, as governments scrambled to reach their poorest citizens during the pandemic, Kenya developed a model to reach unbanked rural areas by introducing a tiered fee structure that pays providers more to facilitate G2P payments in rural areas.[65] With PSBs mandated to have a 25 per cent presence in rural areas, the government could both leverage their presence to digitise and deliver G2P payments and incentivise service delivery in the most remote and least profitable areas.

Another opportunity for PSBs is in the collection of person-to-government (P2G) payments such as taxes, payments for government services such as school fees or co-pays for social benefits such as pensions. Some payments banks in India – the India Post PB, Fino PB and Paytm PB – are now scheduled commercial banks (SCBs) and can facilitate payments between the government and citizens. In Nigeria in 2018, Lagos State announced a partnership with the fintech start-up Interswitch to digitise G2P and P2G payments via a range of channels.[66] In remote and rural locations, a PSB's payment solutions and access to the last mile could provide a significant advantage with both types of payments.

PBs in India are also offering government social protection programmes to their customers. For example, Airtel Payments Bank, in partnership with Bharti AXA General insurance, began offering the government's insurance plan in 2018 and their pension plan in 2019. Such partnerships are a win-win for unbanked customers, PBs and governments alike.

62 Baur-Yazbeck, S. and Chen, G. (May 2018). G2P 3.0: A Future for Government Payments. CGAP.
63 Ibid.
64 Ugbodaga, A. (15 September 2021). "Buhari: 1.6m households receiving N5,000 from my govt monthly". The Cable.
65 McKay, C. and Mdluli, G. (29 April 2020). "Kenya's Expansion of G2P Becomes Lifeline During COVID-19 Crisis". CGAP Blog.
66 Oluka, P. (7 March 2018). "Lagos State Partners with Interswitch on omni-channel digital payment solutions". TechEconomy.ng.

Agriculture

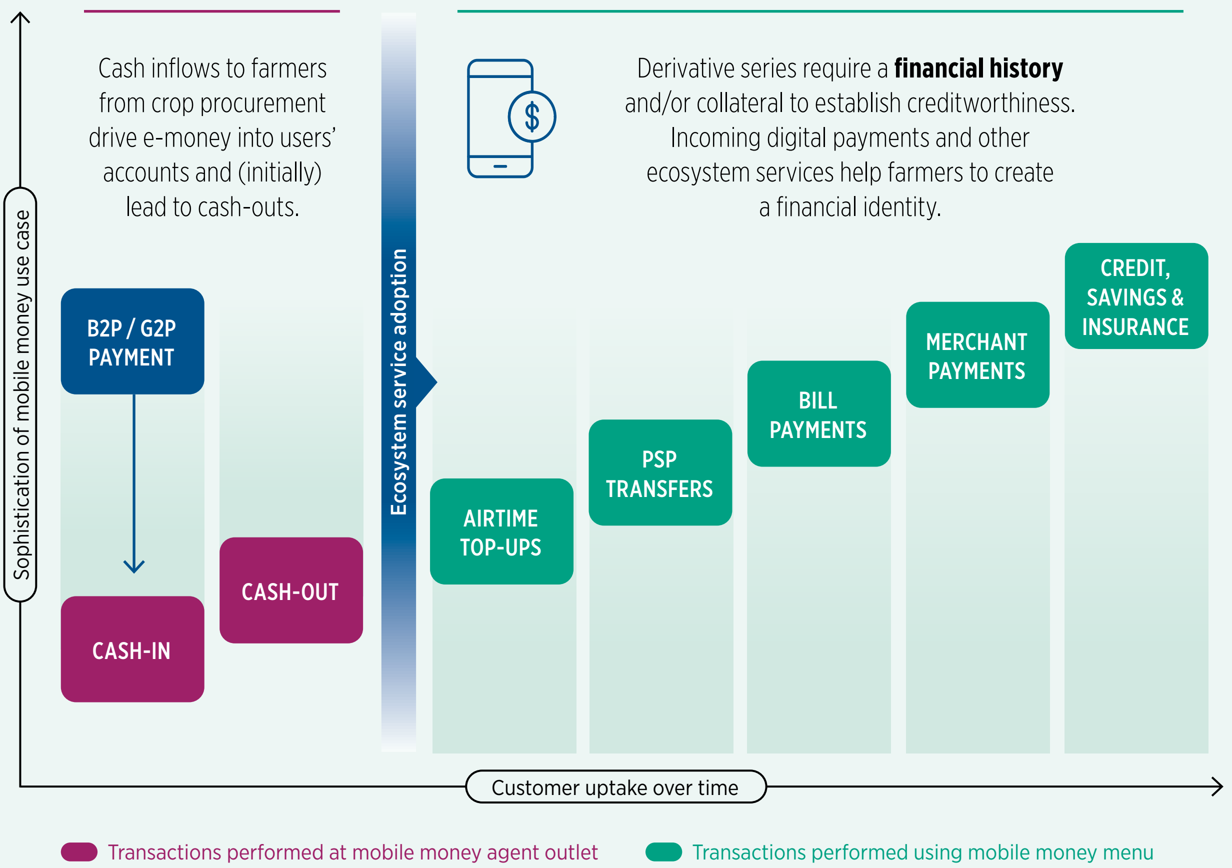
A GSMA study on the digitisation of payments in mobile value chains globally and their revenue opportunity[67] found that two types of payments are ripe for digitisation:

- Procurement payments from agribusinesses to smallholder farmers in formal value chains; and
- Subsidies paid out by governments to smallholder farmers.

Both these opportunities offer an entry point to digitise agricultural payments and enhance financial inclusion for smallholder farmers (Figure 7).

Figure 7

The pathway to financial inclusion via digital agricultural payments



Source: GSMA Mobile for Development[68]

Seventy per cent of Nigeria's population work in the agriculture sector, mainly at a subsistence level.[69] Most transactions along the agricultural value chain, especially in the last mile, are currently cash-based. PSBs offer some of the enabling conditions needed for the successful digitisation of agricultural payments, specifically a last-mile distribution network and mobile phone-based digital financial services. However, the more stringent KYC required for G2P transfers (as these are more prone to fraud), unfavourable regulations and complex public procurement processes can all act as deterrents.

67 GSMA. (2020). Digitising payments in agricultural value chains: the revenue opportunity to 2025.
68 Ibid.
69 FAO. (2021). Nigeria Agriculture at a Glance.

Programmes such as the CBN's Anchor Borrowers programme, which has financed more than 3.1 million smallholder farmers since 2015,[70] could benefit from increased digitisation. Stipulations regarding the Anchor Borrowers programme serve as an important reminder that regulations must not only be enabling for PSBs, but also for potential partners in other sectors. CBN regulations in 2016 (updated in 2021) list participating DMBs, development finance institutions (DFIs) and MFBs as eligible to disburse loans. However, the last-mile access and easier account registration procedures of PSBs could simplify loan application processes and disbursements to hard-to-reach end users for the CBN, as these users currently need significantly more documentation to apply to participate in the programme.

As part of such partnerships, PSBs could also serve as a communication channel between the government and rural subsistence farmers, using mobile and USSD technology to provide vital information.

Piloting and scaling payments products for subsistence farmers could be transformational for the financial inclusion of the unbanked and underbanked. More importantly, it could help them obtain a credit score from the PSB to obtain a loan, which is currently quite challenging as agricultural loans are perceived as high risk by traditional financial institutions.

In third-party partnerships, in India, Airtel PB partnered with MasterCard in 2020 to build "a digital platform which provides farmers with knowledge about advanced farming techniques and connection to marketplaces, while simultaneously enabling them to receive payments directly in their Airtel Payments Bank account."[71] Airtel PB also partnered with agritech start-up Stellaps to facilitate cashless payments for dairy farmers.

In Nigeria, Hope PSB has already partnered with Arla Foods, a dairy agribusiness, to digitise payments to cattle herders for the supply of milk.[72]

Pay-as-you-go utilities

Nigeria is home to the largest off-grid and under-electrified population in Africa where the market opportunity for pay-as-you-go (PAYG) solar is clear. According to World Bank estimates, approximately 55 per cent of the total population has access to electricity, but only 25.5 per cent of the rural population has access.[73] More than 75 million[74] Nigerians live entirely off the grid or lack reliable access to energy at home, although some estimates are higher. With most of the population covered by a GSM network, the wide distribution network and payments processing capabilities of PSBs could make it possible for PAYG solar home systems (SHS) to be distributed and paid for much more effectively. The Rural Electrification Agency estimated the market opportunity in SHS at $2 billion a year in 2017, and product penetration at the time was only 4 per cent.[75]

PAYG solar companies are expanding in Nigeria. In July 2021, Kenya's M-KOPA announced plans to expand into Nigeria after a successful pilot.[76] Lumos, a former GSMA Innovation Fund grantee, has been retailing PAYG SHS via MTN's agents and received $35 million in funding from the U.S. International Development Finance Corporation in 2020 to expand their services. While it has been highlighted that the number of Nigerians living below the poverty line makes it much more challenging for them to afford PAYG SHS, for the company Lumos, market lessons suggest it is not just price, but also simplicity and customer relationships, that foster trust for end users to invest in their product. Training PSB agents in PAYG SHS products could create a mutually beneficial partnership for PAYG companies, PSBs and end users. However, the regulatory environment for the development of PAYG solar technologies could also be improved by providing fiscal incentives to technology providers, as well as stimulating investment in the sector.[77]

70 Ifeanyi, U.J. (15 September 2021). "Anchor Borrowers Programme gave over N300 billion to over N3.1 million smallholder farmers – Buhari". Nairametrics.
71 Airtel. (26 May 2020). "Airtel Payments Bank and Mastercard to develop customized financial products for farmers and SMEs in India". Press release.
72 Key informant interview
73 World Bank Indicator. (2019). "Access to electricity, rural (% of rural population) – Nigeria".
74 Ibid.
75 Rural Electrification Agency. (December 2017). Nigeria Minigrid Investment Brief.
76 Thomas, D. (12 July 2021). "M-KOPA expands into Nigeria". African Business.
77 Lightning Global. (2019). PayGo market attractiveness – Case Study: Nigeria.

Transport

Mass transit in Nigeria is a multibillion-naira industry, but payments are still largely cash-based. Most operators are informal businesses that rely more on cash. In Lagos State, the government is attempting to digitise payments for the Bus Rapid Transport (BRT) scheme, which registered nearly 65 million passenger rides between 2019 and May 2021.[78]

Several fintechs are beginning to offer digitised services in the transport sector. In December 2021, Interswitch announced they are in the process of digitising the booking and payments process for transport in Nigeria using the Quickteller app.[79] The company Cellulant is enabling bus drivers in Nigeria to use their payment technology, TinGG Pay, offering in-store payments to simplify payments between drivers and passengers. These initiatives are still in early stages, and while the opportunity is huge, financial exclusion could be a barrier for many riders.[80] PSBs could play a key role in processing payments in the transport sector as it gains unbanked customers and digitises.

Humanitarian organisations

There are more than 300,000 refugees and more than 2.1 million internally displaced persons (IDPs) in Nigeria.[81] International humanitarian organisations seeking more efficient, accountable and effective service delivery are increasingly prioritising the use of cash and DFS over in-kind assistance.[82] Many displaced persons living in refugee settlements are financially excluded. Cash Working Group (CWG) Nigeria, which coordinates the implementation of cash transfer programmes in North East Nigeria, have reported that 27 implementing partners paid cash assistance to approximately 1.3 million beneficiaries in 25 local government areas in Adamawa, Borno and Yobe states.[83]

According to recent research by the FSDA, EFinA and GSMA, the humanitarian digital cash disbursement system in Nigeria is atypical compared to its regional peers due to the regulatory constraints on the development of mobile money.[84] Because the majority of Nigerian adults do not have mobile money wallets, financial services providers entrusted with disbursing assistance create temporary digital accounts for disbursements until the program ends. The incentive to FSPs and agents has been low, and furthermore there has been regulatory unclarity on digital transactions.[85]

As PSBs establish digital wallets and accounts in rural areas, they offer a viable opportunity to serve as a more consistent channel for humanitarian cash transfers, with agents providing cash-out services for individuals unable to reach other financial services access points. Similar services have had a significant impact in other countries where they have been implemented, including Iraq, Mozambique and Pakistan.[86]

It is worth noting that the opportunity for humanitarian cash transfers is higher in certain parts of the country – for example, the North East Nigeria region, which accounts for most of the displaced persons in the country.

78 Salau, G. (2 May 2021). "BRT buses move 65m passengers in two years". The Guardian Nigeria.
79 Okeowo, Y. (17 December 2021). "Interswitch reiterates commitment to digitisation of transport sector". TechEconomy.ng.
80 Alade, B. (9 July 2021). "Glitches rock Lagos mass transit's electronic payment platform". The Guardian Nigeria.
81 UNHCR UK. "Nigeria emergency". (Accessed November 2021).
82 GSMA. (2017). Landscape report: Mobile Money, Humanitarian Cash Transfers, and Displaced Populations.
83 OCHA Services. Humanitarian Response. "Cash Working Group". (Accessed November 2021).
84 fsdAfrica. (2021). Opportunities and Barriers to Digitising Social Protection and Humanitarian Payments in Nigeria.
85 Ibid.
86 GSMA. (2020). Partnering During Crisis: The Shared Value of Partnerships between Mobile Network Operators and Humanitarian Organisations.

3.6 Emerging opportunities

The financial services ecosystem in Nigeria is constantly evolving with new regulations, services and players, some of which may have significant implications for PSBs. Three recent developments present new opportunities for PSBs.

Open banking

In February 2021, the CBN issued the Regulatory Framework for Open Banking in Nigeria, establishing principles for data sharing across the banking and payments ecosystem that will promote innovation, broaden the range of financial services and deepen financial inclusion.[87] Open banking aims to address the lack of an established credit-scoring system in Nigeria with a standardised API that enables borrowers to seamlessly and securely share their financial information electronically, and enables lenders to easily obtain user statement data, loan history and other information.

Although PSBs are not permitted to issue credit, they can use the open banking infrastructure to generate valuable insights and evidence to support the development of customer-centric products. The wider ecosystem, including DMBs, will benefit from PSBs' involvement in open banking, namely the valuable data insights into the usage habits of PSB customers, many of whom would be using financial services for the first time.

The eNaira (Central Bank Digital Currency)

The CBN formally launched the Nigerian Central Bank Digital Currency (CBDC), known as the eNaira, in October 2021.[88] The CBN expects the eNaira to aid financial inclusion and improve payment efficiency and revenue and tax collection. Unlike digital banking, which involves customers transacting with money they maintain in a bank, customers can receive payments in eNaira and spend it through e-wallets. This enables customers to transact with eNaira like a fiat currency without the involvement of intermediaries. The elimination of intermediaries is expected to reduce transaction time and costs.

Four major parties are involved in the eNaira operating model:

- The CBN;
- Licensed financial institutions, including PSBs, which will be responsible for issuing eNaira to customers and monitoring digital transactions;
- Businesses and merchants responsible for complying with the CBN regulation on KYC and anti-money laundering and countering the financing of terrorism (AML/CFT); and
- Customers who maintain an eNaira wallet.

87 Open Banking. (9 May 2021). "CBN's regulatory framework on open banking in Nigeria; What next?" Open Banking Blog.
88 CBN. (23 October 2021). "President Buhari to Unveil eNaira on Monday, 25 October 2021". Press release.

Table 6

CBDC account tiers

Type of wallet	Cumulative balance limit (NGN)	Transfer limit (NGN)	KYC requirement
Tier 1	300,000	50,000	No existing bank account; phone number validated by NIN
Tier 2	500,000	200,000	Existing bank account and bank verification number (BVN)
Tier 3	5,000,000	1,000,000	Existing bank account and BVN
Merchant	No limit	1,000,000	Full KYC requirement and the CBN's AML/CFT regulation

Source: CBN

As digital banks, PSBs are expected to offer eNaira services to their customers. The opportunities for PSBs are the cost savings from eliminating intermediaries and other physical channels. However, the outlook for the eNaira, and the corresponding benefits for PSBs, depend on the level of adoption among individuals, businesses and government agencies. The CBN has reported that the eNaira app was downloaded almost 600,000 times within the first month.[89]

"At the moment, the impact, of the eNaira on PSBs seems unclear and limited. It is early days and we will have to wait and see what the longer term impacts might be."

– Stakeholder interview

QR payments

In January 2021, the NIBSS and CBN launched the Nigeria Quick Response (NQR) Code, a QR code payment solution to expand the adoption of digital payments in Nigeria. QR codes can be used to present, capture and transmit payment information across payment infrastructure. The technology also enables the mobile channel to facilitate payments and provides another avenue to promote electronic payments for micro and small enterprises.

QR-based payments have several advantages, including faster and cheaper deployment by small businesses and users, instant transaction settlement and ease of use, even for less literate consumers. 9PSB offers a QR payment solution that allows customers to send or receive money without asking for a bank account number.[90] However, the use of this technology will be limited in areas and population groups with lower levels of smartphone adoption.

89 NAN. (27 November 2021). "Emefiele says eNaira downloads almost 600,000 in less than four weeks". The Guardian Nigeria.

90 See 9PSB website.

04

Realising the potential of PSBs to increase financial inclusion in Nigeria

Greater access to and use of formal financial services has the potential to accelerate economic growth and enable more inclusive social and economic development. This is particularly important as new digitally enabled business models emerge, in part driven by the COVID-19 pandemic, leaving unbanked and underbanked populations at greater risk of exclusion from many economic activities. For policymakers and other stakeholders, achieving the targets of the NFIS is a top priority, with high expectations that PSBs could help move the needle for financial inclusion in Nigeria.

Financial inclusion goes beyond account ownership. As noted earlier, data from the NIBBS shows that around a third of bank accounts – more than 45 million – are dormant.[91] Financial inclusion efforts must therefore include offering useful products and services that improve economic outcomes for citizens. Financial inclusion begins with economic inclusion, which in turn begins when people perceive the value and benefits of formal financial services. Table 7 highlights the measures that key stakeholders in Nigeria's financial ecosystem must take to ensure greater financial inclusion.

91 Nairametrics.com (11 September 2020). "Coronavirus: Active bank accounts in Nigeria surge to 111.5 million amid virus". My Nigeria.

Table 7

Measures to support PSBs and deepen financial inclusion

Regulators and public agencies

- **Ensure regulatory clarity:** There is an opportunity to clarify regulations governing PSBs. For example, the definitions, criteria and timescale for PSBs' rural presence are unclear. Similarly, guidelines on product partnerships – key to the viability of the PSB model – lack clarity, which may slow efforts to engage and scale partnerships. Commercial planning is time sensitive and any uncertainty can have a negative impact on profitability and jeopardise the viability of PSB operations.

- **Create a level playing field for all service providers:** The arrival of PSBs has added to the number and variety of FSPs in Nigeria. The purpose of having a diverse mix of FSPs is to ensure access to affordable financial services and stimulate economic growth. CBN is creating an open and level playing field that is conducive to innovative solutions. Sustaining this enabling environment by eliminating barriers to entry will be key to unleashing the full potential of DFS in Nigeria. According to empirical studies of countries that have recorded explosive mobile money deployments, the regulatory regimes did not restrict the types of organisations that could provide mobile money services.[92]

- **Co-create innovative solutions:** Regulation can either be an enabler or barrier to innovation, depending on how it is applied. This is especially true in fast-changing, technology-driven environments like DFS. Regulators, including the CBN and the NCC, should take a forward-looking approach to regulations in this sector as it could help to boost both investor confidence and innovation. In Kenya, Safaricom worked proactively with the government for two years before launching M-Pesa, ironing out regulatory concerns. The resulting regulations developed after risk-assessments served as hugely enabling.[93] In an innovative move, the CBN has set up a Regulatory Sandbox where fintech and other financial ecosystem players, particularly in payments services, can try out new products for which regulations may not currently exist and have regulatory engagement. PSBs could utilise the sandbox to create engagement with the CBN as they develop customer-centric products targeted at rural populations.

- **Streamline counterproductive policies:** Regulators should take a holistic view of regulations to address potentially counterproductive policies. For example, the current guidelines on diaspora remittances specify that all remittances are to be paid to end users in USD, either as cash through agents or into their domiciliary account.[94] This policy inadvertently excludes PSBs from participating in the lucrative diaspora remittances market, given that they are not permitted to provide any foreign exchange services, except to realise revenues from the sale of inbound remittances in international currencies from forex dealers.

- **Accelerate the shift to a cashless economy:** Public agencies should leverage PSBs to drive adoption of formal financial services among the unbanked and underbanked, by using digital channels for payments and the collection of taxes, school fees and other public services for which cash has typically been the main form of payment. This would improve transparency, accountability and efficiency and, for state governments, would be an opportunity to increase revenue and reduce the risk of leakage in tax revenue.

92 Evans, D.S., & Pirchio, A. (2014). "An empirical examination of why mobile money schemes ignite in some developing countries but flounder in most." Review of Network Economics, 13(4), 397-451.
93 N. W. Ezechukwu. (2021). "Regulating Innovation for Financial Inclusion: Lessons from Nigeria." Cambridge University Press.
94 Olisah, C. (30 November 2020). "Frantic CBN allows diaspora remittances to be withdrawn in dollars and sold anywhere including black market." Nairametrics.

PSBs and other financial ecosystem players

- **Create value through collaboration:** Ecosystem players should develop market-led, mutually beneficial partnerships that take advantage of synergies to deliver accessible, affordable, valuable and inclusive financial services. Two areas requiring immediate collaboration are:
  - **Agent networks** – collaboration is needed to prevent duplication of efforts in agent rollout. This would allow ecosystem players to focus on unserved locations and ensure the efficient provision of support services, such as training and business loans. Stakeholders are aware of the opportunities for collaboration, but stress that it must be mutually beneficial for all parties, including the agents on the ground.
  - **Value chain efficiency** – the financial services value chain is extensive and multifaceted. Some players are highly integrated but, for many others, collaboration is a better approach to addressing customer life-cycle requirements. As the newest entrants in the financial ecosystem, identifying the right partners with complementary skills could be a key differentiator for PSBs.

Development community and other civil society organisations

- **Fund on-going research of the product needs of excluded populations** – Continuous research in this area could help PSBs and other service providers better understand the product needs of excluded adults and, importantly, how these needs change as their social and economic circumstances change. Greater financial inclusion among these groups would enhance the efficiency and improve the outcomes of humanitarian efforts and, by extension, accelerate progress on the Sustainable Development Goals (SDGs).
- **Support agent training** – this would ensure that agents have the technical skills and financial literacy to support financial inclusion efforts. For example, GIZ has partnered with SANEF to deliver online financial literacy courses for agents.
- **Invest in technology to enhance last-mile delivery** – this can ease the cost burden of serving people in hard-to-reach locations. For example, Rockefeller Philanthropy Advisors has provided the Nigeria Financial Services (NFS) Maps, an interactive geospatial tool that uses GIS to measure and track financial access points.
- **Use digital solutions for humanitarian cash assistance** – this can help increase financial inclusion among the most vulnerable and smooth the path to recovery.

For unbanked populations in Nigeria, most of whom face considerable barriers to financial inclusion, the COVID-19 pandemic highlighted the risk of becoming excluded from the digital economy. The CBN has a target of 95 per cent financial inclusion by 2024, and PSBs can play a key role in achieving this target. However, success depends on an enabling policy and regulatory environment to stimulate innovation and investment, the ability of licensees to quickly scale their operations and deliver value to target customers, often through partnerships, and the support of key stakeholders, including the development community.

Glossary of terms

Agent: A person or business contracted to facilitate transactions for users, the most important of which are cash-in and cash-out (i.e., loading value into the mobile money system, and then converting it back out again). In many instances, agents register new customers, too. Agents usually earn commissions for performing these services. They also often provide front-line customer service, such as teaching new users how to initiate transactions on their phone. Typically, agents conduct other kinds of business in addition to mobile money. The types of individuals or businesses that can serve as agents will sometimes be limited by regulation, but small-scale traders, microfinance institutions, chain stores and bank branches all serve as agents in some markets. Some industry participants prefer the terms “merchant” or “retailer” to describe this person or business to avoid certain legal connotations of the term “agent” as it is used in other industries.

Anti-money laundering and countering the financing of terrorism (AML/CFT): A set of rules, typically issued by central banks, that attempt to prevent and detect the use of financial services for money laundering or to finance terrorism. The global standard-setter for AML/CFT rules is the Financial Action Task Force (FATF).

Bank verification number (BVN): Biometric identification system implemented by the CBN to curb or reduce illegal banking transactions in Nigeria.

Business correspondents (BCs): Retail agents engaged by banks in India to provide banking services at locations other than a bank branch or ATM.

Cash-in/cash-out (CICO): Loading value into the mobile money system and then converting it back out again.

Deposit money bank (DMB): Resident depository corporations and quasi-corporations that have any liabilities in the form of deposits payable on demand, transferrable by cheque or otherwise used for making payments.

Development finance institution (DFI): Usually majority-owned by national governments, development finance institutions are specialised development banks or subsidiaries set up to support private sector development in low-and middle-income countries.

Digital financial service (DFS): A broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance.

eNaira: A CBN-issued digital currency that provides a unique form of money denominated in naira. eNaira serves as both a medium of exchange and store of value, offering better payment prospects in retail transactions than cash payments.

Financial inclusion: When individuals and businesses have access to useful and affordable financial products and services that meet their needs, including transactions, payments, savings, credit and insurance, delivered in a responsible and sustainable way.

Fintech: The integration of technology into offerings by financial services companies to improve their use and delivery to consumers.

Formal financial inclusion: When individuals and businesses have and use formal financial products and/or services provided by a financial institution (bank and/or non-bank).

Formal financial products/services: Products and services provided by financial institutions that include electronic payments, savings, credit, insurance and pension schemes.

Gross earnings: The gross earning of a bank is an aggregation of all the income sources they receive without accounting for operating expenses, interest expenses or loan impairments.

Informal financial services: Financial services offered by unregulated entities. Examples of informal financial services are susu collections in Nigeria, loan-shark lending and savings groups.

Interoperability: The ability of users of different mobile money services to transact directly with each other. Given the technical, strategic and regulatory complexities that enabling such transactions would entail, no mobile money platforms are yet fully interoperable. However, many mobile money services allow users to send money to non-users (who receive the transfer in the form of cash from an agent).

Know your customer (KYC): Rules related to AML/CFT that require financial service providers to carry out procedures to identify a customer.

Microfinance bank (MFB): A type of banking that provides financial services to low-income individuals or groups of people who would otherwise have no access to finance.

Mobile banking: When customers access a bank account via a mobile phone. Sometimes they can initiate transactions.

Mobile money: A service in which a mobile phone is used to access financial services.

Mobile wallet: An account that is accessed primarily using a mobile phone.

Point of sale (POS): A retail location where payments are made for goods or services.

Scheduled commercial banks (SCBs): Banks in India that are included in the second schedule of the RBI Act 1934, and which carry out the normal business of banking, such as accepting deposits, giving out loans and other banking services.

USSD: A text-based communications service that can be used for activities such as callback, mobile marketing, balance checks and other financial transactions.

Small finance banks (SFBs): A specific segment of banking created by the RBI, under the guidance of the Government of India, to further financial inclusion primarily by offering basic banking activities to unserved and underserved segments, including small business units, small and marginal farmers, micro and small industries and unorganised entities.

Super-agent: A business, sometimes a bank, that purchases electronic money from a mobile operator wholesale and then resells it to agents who, in turn, sell it to users.

Unbanked: Customers, usually the very poor, who do not have a bank account or transaction account at a formal financial institution.

Underbanked: Customers who may have access to a basic transaction account offered by a formal financial institution, but still have financial needs that are unmet or not appropriately met. For example, they may not be able to send money safely or affordably gsma.com

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