FIRST CONSULTATIVE WORKING GROUP FORUM ON DIGITAL FINANCIAL SERVICES (DFS) FOR FINANCIAL INCLUSION ABEOKUTA, NIGERIA, 4 – 5 AUGUST 2017

COMMUNIQUÉ

PREAMBLE

Delegates from over fifteen (15) industries and associations numbering sixty three (63) from forty (40) institutions attended the First Digital Financial Services (DFS) Consultative Working Group (CWG) Forum, which was held at the Park Inn by Radisson Hotel, Abeokuta, Ogun State, from 4th to 5th August, 2017. The Forum was hosted by the Sustainable and Inclusive Digital Financial Services Initiative of the Lagos Business School (LBS), supported by the Bill & Melinda Gates Foundation (BMGF).

Among the participants were senior executives of the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), National Insurance Commission of Nigeria (NAICOM), National Pension Commission (PENCOM), statutory financial institutions, managing directors and senior executives of mobile money operators (MMOs) and super-agents, directors and senior officers of the Consumer Protection Council of Nigeria (CPC) and the National Identity Management Commission (NIMC), directors and senior officers of the National Communications Commission of Nigeria (NCC), members of financial sector development organisations, media practitioners, legal practitioners, academics and researchers.

The stakeholders represented at the Consultative Working Group Forum included Government ministries, departments and agencies (MDAs) spanning financial services regulatory authorities, law enforcement, identity management, consumer protection, Ministries of Justice, Budget and Planning and the National Assembly. The private sector attendees included deposit money banks (DMBs), pension fund administrators (PFAs), microfinance banks (MFBs), Islamic finance institutions, MMOs and mobile network operators (MNOs). In addition, there were representatives from consumer protection associations, advertising agencies, infrastructure providers, legal professionals and the academia.

The theme of the Consultative Working Group Forum was: "**Market-Enabling Digital Financial Services (DFS) Policy and Regulation**". The sub-themes were:

- Global Identity Management/Know-Your-Customer (KYC)
- Consumer Protection, Privacy & Data Protection, Cybercrime & Fraud
- DFS Environment: Interoperability, Collaboration and Competition
- Enabling Financial Inclusion at the Last Mile

- Enabling environment for DFS ecosystem
- DFS Infrastructure

The overall objective of the Forum was to enable stakeholders evaluate key public policy on digital financial services and financial inclusion with a view to identify and agree practical reforms in legislative and regulatory policies to better enhance financial inclusion in Nigeria. To achieve this overall objective, delegates:

- Reviewed and validated the Forum working paper that documented the findings of empirical research evaluating policies and legislation on financial inclusion in Nigeria and suggestions for policy, legislative and legal reform.
- Debated the various issues relating to DFS and financial inclusion.
- Learned from each other, from other ecosystem actors as well as the two presentations on the national identity management system implementation and the challenges to financial inclusion in northern Nigeria.
- Identified the following key policy and legal issues:
    - Noted the importance of enforcement mechanisms that ensure compliance with extant policies, regulations and laws.
    - Noted insufficient regulatory oversight to curtail unduly high prices of services for consumers.
    - Observed the disconnect between the marketplace reality and provider/regulator perspective and the need for practical policy proposals.
    - Noted the importance of consumer awareness of DFS services, guidelines and laws protecting their rights as well as inadequate consumer communication and redress channels.
    - Highlighted the key challenge being consumer distrust of financial services and financial institutions.
- Noted the need for single national identity mechanism that is shared amongst government agencies. Data privacy concerns and the consideration of anonymised data were also raised. As such,
    - Noted the need for provider acceptance of such challenges and the development of trust-building financial services and practices.
    - Noted that failure to effectively address this key constraint would render any policies and policy reform efforts redundant.
- Identified the existence of weak institutional frameworks, such as the example of the perceived muted impact of the designated financial services industry (FSI) coordination body, the Financial Services Regulation Coordinating Committee (FSRCC), by the CBN Act. It was suggested that legislation should establish and decentralise the Financial Inclusion Secretariat (FIS) as an Agency of Government independent of the Financial Services Regulator, CBN. The

board of FIS should include all key players in the DFS ecosystem with dedicated funding for consumer education.

The working groups constituted were guided by terms of reference drawn from the policy evaluation and overview of DFS law contained in the Forum Working Paper titled, "Digital Financial Services (DFS): Market-Enabling Policy and Regulation". Delegates were instructed to identify specific problems related to the theme and possible policy proposals, amendments to existing guidelines or legislation and where necessary suggest new policies and/or legislation.

After several rounds of deliberations each working group presented recommendations at the second plenary session. Following feedback from that session, the groups submitted final recommendations which were critiqued and areas of consensus were compiled for the communiqué.

The communiqué is presented here below.

GLOBAL IDENTITY MANAGEMENT/KYC

IDENTITY ENROLMENT

Inadequate national coverage is stalling the enrolment of citizen identities by the National Identity Management Commission (NIMC), resulting in the lack of a proper and comprehensive identity management system to facilitate 'KYC' requirements for unbanked or under banked citizens.

The multiplicity of identity management systems and databases with possibly disparate data items was also identified as a problem. However, it was recognised that the concept of a unique national identifier could only be accomplished through harmonisation and subsequent integration with national identity database.

Recommendations

NIMC, rather than seeking to enrol citizens through specialised enrolment centres, should provide specific data sets for all other governmental agencies and private sector institutions to assist in identity data capture to ensure the achievement of a universal identification number for all Nigerians.

To this end, NIMC should develop standardised forms for the enrolment activity. Consequently, the NIMC Act should be amended to allow other agencies and suitable private sector institutions play this role effectively.

Stakeholder Awareness

The paucity of publicity, awareness and education on the national identity numbering scheme is a key contributory factor to the uptake for national identity registration by Nigerians.

Recommendations

Adequate effort, financial provision and other resources for the promotion of consumer awareness and education on the use and benefits of NIMC should be made. Legislators should also be sensitised to appreciate the crucial importance and cross cutting benefits of a quicker implementation of the national identity registration program.

Limited Transaction Thresholds

The limited transaction thresholds of the 'Know-Your-Customer' (KYC) policy were identified as factors inhibiting financial inclusion of the unbanked. Also, existing KYC limits do not adequately cater for Nigerians who are cash rich but identity poor.

Recommendations

An assessment and review of existing KYC threshold on the basis of empirical study should be undertaken from time to time.

Level-1 Bank Verification Number (BVN) Requirements

The need for BVN for all account holders was noted as a good initiative but contrary to financial inclusion goals, especially for accounts with level-1 KYC requirements.

Recommendations

There is a need to keep in place the existing attenuated KYC requirements for level-1 customers.

Consumer Protection, Privacy & Data Protection, Cybercrime & Fraud

Costs

High transaction charges and fees were noted as a key deterrent to financial services. Unduly high costs associated with customer on boarding (account opening) as well as the multiplicity of account maintenance charges were also noted. The non-disclosure of fees and charges was also worrisome.

Recommendations

A legislative amendment mandating zero rated charges for level-1 customer transactions within their transaction threshold was agreed. Where fees are charged, interchange arrangements such as revenue share with Telco's and other players such as infrastructure providers should be encouraged. There should be zero-rated charges for the use of USSD services.

Regulators should reduce the cost of complying with relevant regulations by DFS operators in order to minimise the passing on of the cost to consumers. Therefore, existing legislation should be revised with this objective in mind.

All operators should be required by law to disclose their fees and true cost of services to consumers. Existing guidelines should be amended to require and emphasise adequate consumer education with adaptation in local languages for effectiveness.

ACCESS/LIMITED SPREAD

The depth of the financial inclusion challenge in rural areas (as well as in northern Nigeria) was relatively shallow, partly attributable to the reluctance of financial institutions establish a presence in rural and remote areas, hence limiting access to financial services.

Recommendations

Policies that support and institutionalise agent banking remain important. However, existing policies and guidelines should be amended to include incentives for DMBs, MMOs and others players to focus on increasing rural penetration which will create better access and uptake.

POVERTY

Poverty as a result of unemployment or underemployment is a significant contributory factor to financial exclusion.

Recommendations

Policies that promote and incentivise inclusive new products and services are required, especially for insurance, pensions, credit and so on. Also, other financial services that will enhance incomes and create new sources of livelihood for the rural unemployed should be introduced.

FINANCIAL LITERACY

The poor level of financial literacy by Nigerians was noted. This was attributed to low consumer education on financial products as well as protection mechanisms like deposit insurance. Another financial literacy constraint observed was the perceived lack of interest and disregard of service terms and conditions.

Recommendations

The National Financial Literacy Framework appears to be adequate; however, its implementation should be strengthened.

Additional measures include:

1. Supporting financial literacy and consumer education with content adaptation in local Nigerian languages.
2. Stipulating communication guidelines of "terms and conditions"/consumer communication. In particular, legislation should require simple English language in the drafting of 'terms and conditions' and placing the burden of vagueness and ambiguity that results in poor understanding of their true legal import and effect on service providers. The Consumer Protection Council (CPC) should provide additional legal and practice frameworks and guidance notes for terms and conditions obligations that protect consumers.
3. Enacting unfair contracts terms legislation, beyond the provisions in the Electronic Transactions Bill.
4. Developing a robust, interactive and localised National Financial Education Curriculum that cuts across different financial services and accessible on digital and social media platforms that is managed by the FIS.

Security & Privacy

Threats to security of consumer information (privacy) engender lack of trust in view of the absence of data protection legislation, the active and visible enforcement of data privacy. Thus, issues such as the wrongful sale and distribution of customer data and other prevalent data breaches are left unmanaged.

The information security risks of the USSD channel and data privacy are significant. This is substantiated by the fact that data dumps of the USSD transmissions are accessible to select MNO staff in clear text form.

Recommendations

Legislation on data protection, and agency with enforcement powers should be introduced. The proposed data privacy and protection legislation should take the following into consideration:

1. Provisions that prohibit hacking, malware and other forms of unauthorised access.
2. Stiff penalties against disclosure, sale or unauthorised use or handling of customer data.

3. Data residency mandates that ensure data encryption transmitted to servers overseas. To enhance the privacy frameworks in the ecosystem, the amendment of all guidelines for ecosystem operators should include disclosure obligations for data privacy breaches.

Other measures recommended include:

1. The provision of fidelity bond insurance in extant guidelines is acknowledged. However, enforced implementation across financial services is required.
2. Insurance against fraud for both the consumers and the financial institutions in the event of fraud should be maintained.
3. To enhance information security, enforcement of a legal framework for reporting infractions in a more transparent manner to deter breaches should be introduced.
4. Elimination of unnecessary costs of identity verification.
5. Adequate requirements for operators to protect data from hacking, malware and other unauthorised access should be issued.
6. Imposition of stiff penalties on the sale or unauthorised handling of customer data/information is required.

Consumer Dispute Resolution

Inadequate mechanisms for redress and complaints resolution process, such as USSD fees borne by consumers, for failed transactions is a significant consumer disincentive breeding lack of trust in digital financial services, thereby hampering financial inclusion.

Recommendations

The Forum recommended that, NCC should require MNOs reverse USSD fees for failed transactions. Therefore, NCC should introduce regulation or guidelines that address quality of service (QoS) for USSD services.

Additional proposals to enhance the consumer complaints process as well as address all redress issues include:

1. Online dispute resolution mechanisms and clearing house for redress should be established.
2. Senior/competent officers should be designated in all relevant organisations to handle customer complaints and timelines for effective resolution of complaints should be instituted by policy.
3. Effective measures, processes and procedures to prevent systemic failures of consumer redress should be instituted in all relevant organisations.
4. Establishment of a consumer ombudsman, mediation services, arbitral organs and courts that finalise consumer complaints within 21 days.
5. Establish consumer redress mechanisms at the level of agents in remote locations.

6. Provision of cost-free consumer complaints resolution services, such as toll-free telephone lines.
7. Policies that promote proactive consumer protection.
8. Promotion of financial literacy education, training and re-training for judicial officers, litigators, enforcers and prosecutors.

Thus, existing guidelines should be amended consequentially to provide for these improvements for consumer redress.

CULTURE

The role of ethnicity and religious beliefs as barriers to trust building and adoption of financial services is recognised. Examples cited include the beliefs against usury and banking.

Recommendations

The Forum recommended the adoption of policies that:

1. Provide alternative products and services which recognise these religious and cultural beliefs.
2. Promote alternative and culturally friendly distribution channels (using peers as agents).
3. Mandate providers to create such products.
4. Provide tax incentives to encourage culturally suitable products and their deployment in rural locations.

CYBERCRIME

The prevalence of electronic and cybercrime has been a deterrent to adoption and popularity of electronic transactions. Advanced non-technical techniques and practices of cybercriminals, such as, emotional manipulation and use of social media, etc. to steal information from unsuspecting consumers are common. Poor motivation and capacity of law enforcement officials further increases the risks of cybercrime.

Recommendations

Regulatory policies and oversight activities should:

1. Require operators to train and retrain their staff on the latest security measures.
2. Ensure that DFS ecosystem staff do not connive with fraudsters.
3. Prevent re-assignment of SIM Cards in event of de-activation.
4. Enhance the capacity of law enforcement officers at the Special Fraud Unit (SFU), Economic and Financial Crimes Commission (EFCC) and other law enforcement agencies to combat and fight cybercrimes.
5. Promote cooperation between banks and law enforcement agents.

6. Promote cybercrime education, training and retraining for judicial officers, litigators, enforcers and prosecutors.
7. Establish dedicated cybercrime units by all law enforcement agencies to avoid duplication of functions.

Existing guidelines and legislation should be amended to reduce the rate of cybercrime by:

1. Developing regulations that require minimum ICT security standards for financial inclusion and up to date training for ICT staff.
2. Ensuring that banks maintain updated security clearance for employees.
3. Reviewing existing regulation on SIM card re-assignment. NCC should consider the possibility of blacklisting rather than re-assignment.
4. Developing a working relationship with international agencies for assistance in capacity building for local law enforcement that discourages direct subvention to the agencies which has a potential for diversion or misappropriation.
5. Developing a framework that guides a working relationship between the ecosystem and law enforcement agencies that makes interaction less cumbersome.
6. Amending existing industrial training fund (ITF) law to encourage refunds to service providers who invest in education.

Cybercrime training for judicial officers and other law enforcement personnel from EFCC, Independent Corrupt Practices Commission (ICPC), Nigeria Police Force (NPF), SFU, etc. should be prioritised by the National Judicial Commission (NJC) with assistance from international agencies.

Interoperability, Collaboration and Competition

Merchants

High prices were identified as a major disincentive to financial inclusion across merchant platforms.

Recommendations

Cross subsidisation, such that one segment of the market (the high end - financially included) subsidises the other (the financially excluded), should be adopted.

All tariffs should be cost-reflective, whilst encouraging financial inclusion. Consequential amendments to the CBN Guide to Charges for mobile money operations and agent banking to provide a cost-reflective tariff structure should be effected.

Software

The lack of common data/information exchange standards acts as a disincentive to interoperability.

Recommendations

It was agreed that regulators should prescribe a specific and open application programming interface (API) to be adopted by the various stakeholders within the DFS space. To achieve this, a memorandum of understanding (MoU) between the FSRCC and other stakeholders within the DFS space to adopt common standards should be drawn up. Therefore, the CBN Act should be amended to provide the FSRCC with additional powers in this regard, while also extending its membership to relevant non-financial sector regulators. In the interim, CBN should creatively use existing subsidiary legislation and guidelines to accommodate these regulators.

Agent/OTC

The Forum observed that limited economic incentives for the agent channel and over-the-counter (OTC) transactions were a significant inhibitor to last mile distribution, highlighting the fact that current pricing regulations are not adequately cognisant of current economic realities. The need for consumer protection to avoid operator inefficiencies being transferred to consumers is critical.

Recommendations

A market-led approach to pricing subject to regulation should be adopted. In order to offer better economic incentives, agents should be licensed to represent all financial institutions. Therefore, guidelines defining a unified interface for agents serving multiple operators should be issued.

Non-Bank DFS Ecosystem Participation

The Forum observed the limited DFS ecosystem investments by non-bank financial institutions like pensions and insurance. There is a dearth of financial technology (FinTech) players catering to customers in other sectors asides payments and banking.

Recommendations

Financial institutions within the non-participatory sectors should make necessary investments to develop and grow the sectors. Affected regulators should take a more active role in encouraging and incentivising licensees in DFS deployments. Regulators should create additional collaborative platforms to facilitate engagements with market participants and consumers that will help keep abreast of market issues.

Outdated Regulation

The Copyright Act and the Patent and Designs Act should be amended adequately to cover layouts and integrated circuits, as well as allow the registering of software as inventions. An update to the Banking and Other Financial Institutions Act (BOFIA) and urgent enactment of competition legislation is required.

Enabling Financial Inclusion at the Last Mile

Awareness

Ignorance of DFS and a lack of understanding of how it works and its many benefits to the end user have created a gap between providers and consumers.

Recommendations

To increase DFS awareness and understanding, the following recommendations were made:

1. Promote DFS through embedded content in Nigerian movies which will serve as an effective non-advertorial mechanism.
2. As radio remains an effective channel, special airtime slots for financial inclusion programmes should be made available.
3. Use of youth employed under the N-Power scheme as champions of financial inclusion messaging to the unbanked.

Agent Banking

The need for transaction volumes that flow through super-agent and sub-agent channels will enhance the business case for DFS and last mile operations.

Recommendations

The digitisation of government payments (salaries) and other payments associated with the Social Investment Programmes and National Youth Service Corps (NYSC) should be made through alternate digital channels like mobile money. This will require amendments to government payments guidelines.

Agent Liquidity

The inability of agents to serve consumers cash over-the-counter is grossly limited by their liquidity. To date, liquidity lines of credit (working capital) are supported by operators, limiting operating cash.

It was further observed that agent's liquidity is further constrained by current settlement period of T+1 or T+2, in some instances.

Recommendations

The Forum recommended that instant settlement for risk free transactions, especially for micro and small business enterprises providing agency or merchant services - or possibly for the entire ecosystem be instituted by law. This proposal would require a review of the CBN transaction settlement framework.

DFS Advocacy

The Forum noted the importance of the role of legislation in deepening financial inclusion.

Recommendations

It was recommended that industry players form a lobby group to engage the National Assembly in formulating bills which would favour the cause of financial inclusion.

Strategic Importance

Based on the roles and responsibilities of financial inclusion personnel in financial institutions, where available, the low strategic importance given to this national issue was observed.

Recommendations

To elevate the contribution of financial institutions to financial inclusion, it was suggested that the regulator amend the guideline to stipulate that an executive-level staff for financial inclusion should be assigned to lead financial inclusion initiatives.

Funding

The Forum noted the capital-intensive nature of driving financial inclusion especially in remote areas. There are several initiatives and projects which need to be launched if financial institutions are going to be enabled to reach more of the financially excluded as well as further optimising the financial services ecosystem for inclusion but funds are limited.

Recommendations

It was therefore recommended that similar to the creation of the Universal Service Provision Fund (USPF), all Deposit Money Banks should set up a Financial Inclusion Fund which would be for the sole purpose of supporting financial inclusion projects and campaigns with a regional/national ecosystem approach.

Enabling Environment for DFS

Consumer Behaviour Profiles

The lack of knowledge and insights of consumer behaviours and habits at the bottom of the pyramid was identified as an ecosystem constraint.

Recommendations

It was recommended that the FSRCC create a research and development framework that would increase the quantity and depth of research on the rural market. The framework should include funding of research initiatives as well as making data public and available for relevant stakeholders to use.

Financial Service Agent Channels

The Forum noted that agents are not empowered to offer other financial services like pensions and micro-insurance etc. This was highlighted as a missed opportunity as empowered agents, who can offer a spectrum of financial services at the last mile, will drive financial inclusion significantly.

Recommendations

It was proposed that PENCOM and NAICOM should review existing policies governing the retail of insurance and pension services through agents. In order to make the transition easy and attractive for agents, a consolidated implementation framework that would enable them offer these other financial services was recommended.

Multiple Business Registrations

The Forum observed that there are too many mandated licenses and registrations required to enter the DFS ecosystem, in effect creating issues of multiple registration, multiple levies, and multiple operational prerequisites. This significantly raises the barriers to entry for financial institution.

Recommendations

1. The implementation of a harmonised referencing system that allows registration agents to share information was proposed.
2. Review of the regulations guiding licensing in the DFS space especially for new entrants. The review should focus on consolidating similar licenses and streamlining the requirements clearly for each license.

Cashless Policy

The nationwide implementation of the cashless policy and cashless initiatives that make cash less attractive was noted.

Recommendations

Cash handling penalties from consumer to merchants and from merchants to banks to make cash unattractive should be issued. Nonetheless, due to constraints that stalled the full implementation of the cashless policy, the Forum consensus was to let CBN manage the rollout and all decisions around the cashless policy.

Taxation

The imposition of multiple, illegal and indiscriminate taxation drives up infrastructure provision costs. In addition, taxes, fees, signage levies and other levies incurred at Federal, State and Local Government levels have disproportionately increased the cost of doing business.

Recommendations

One-stop shop arrangements to manage tax and other revenue payments across all tiers of government and multiple agencies is urgently required. To address this, relevant amendments to existing Federal, State and Local Government tax legislation, policies and working arrangements should be effected. In addition, an extension of the Pioneer Status[1] to participants in the financial inclusion sector should be effected.

In the case of excessive, disparate and indiscriminate right-of-way (RoW) pricing for infrastructure by State Governments, the immediate implementation of 21 March, 2013 National Economic Council (NEC) resolutions on "Multiple Taxation, Levies and Charges on information and communications technology (ICT) Infrastructure in Nigeria in respect of Right-of-Way" should commence.

[1] The Federal Government review of the Pioneer Status list now includes e-commerce, software development and publishing and business process outsourcing businesses

SUSTAINABLE + INCLUSIVE DIGITAL FINANCIAL SERVICES

DFS Infrastructure

Infrastructure Provision

The imperative of efficient, good quality and low-cost telecommunication services in extending financial inclusion to rural populations is being hampered by in the high cost of roll out of telecommunications infrastructure expansion.

Recommendations

1. CBN should avail long term intervention funds at low interest rates for rural telecommunication expansion.
2. CBN's Foreign Exchange (Fx) Policy should be modified to include telecommunication companies in the CBN Fx window; In addition, existing spot rates should be revised downward and kept at par with rates obtainable in the forwards market deals, to enable operators pay for equipment and services critical to their network operations and enhancements.
3. The Universal Access and Universal Service Regulation 2007 should be reviewed to ensure easier access to Universal Service Provision Fund (USPF).
4. Review the USPF and Nigerian Information Technology Development (NITDEV) Fund should be actively deployed to fund enhancement of rural telephony by stipulating catchment areas for telecommunication companies and other infrastructure providers up to ward levels, and promoting compliance through incentives.
5. Furthermore, NCC should review spectrum pricing policy for rural area penetration by telecommunication companies, thereby inducing cheaper or free spectrum.

Infrastructure Security

Theft, vandalism and other security hazards to telecommunication infrastructure deployed nationwide resulting in unduly high operational costs and deficiencies in service quality has been a major impediment to financial inclusion.

Recommendations

The Forum identified the efforts of the government in the identification and determination of critical national infrastructure. In addition, it was proposed that:

1. The designation of critical national infrastructure according to the provisions of the Cybercrime Act should be effected by the President and National Security Adviser (NSA).
2. Legislators should kindly expedite the passage of the Critical National infrastructure Bill.
3. Adequate protection of telecommunication infrastructure nationwide should be prioritised.