DIGITAL FINANCIAL SERVICES IN NIGERIA
STATE OF THE MARKET REPORT
2017

SUSTAINABLE + INCLUSIVE
DIGITAL FINANCIAL SERVICES

LAGOS BUSINESS SCHOOL
PAN-ATLANTIC UNIVERSITY

ACKNOWLEDGEMENTS

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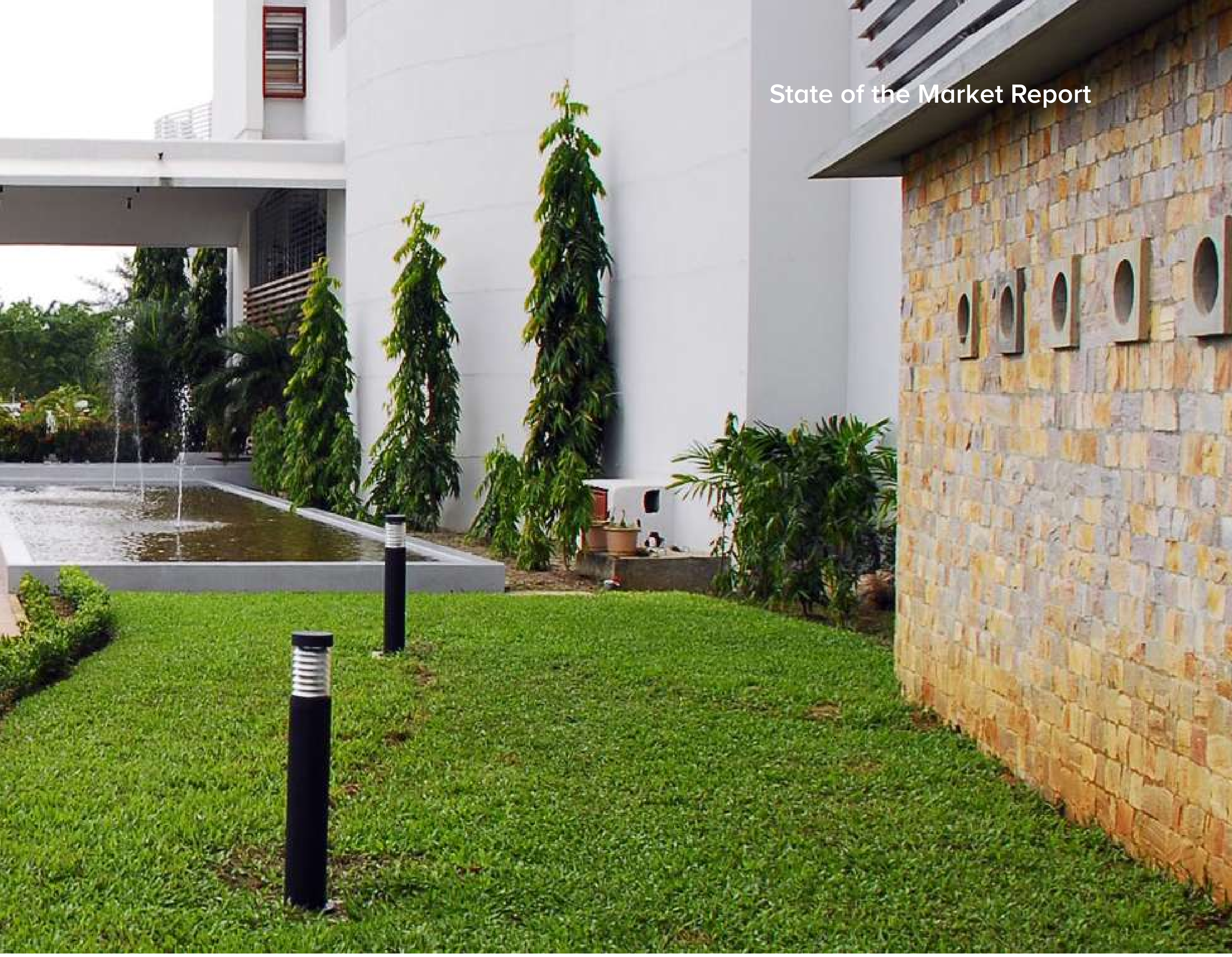
ABOUT LBS

Lagos Business School (LBS) is the graduate business school of Pan-Atlantic University (formerly Pan-African University). LBS offers academic programmes, executive programmes and short courses (customised to specific company needs, as well as open-enrolment courses) in management education. Its offerings have been ranked among the best in Africa as it systematically strives to improve the practice of management on the continent.

The business school's efforts have been recognised by several world-class accreditations and rankings. Besides the quality bar set at world-standards, LBS programmes also stand out because of the emphasis on professional ethics and service to the community. Learning at LBS is based on a Christian conception of the dignity of man, of society and of economic activity. The Prelature of Opus Dei, an institution of the Catholic Church, takes responsibility for guaranteeing that this vision underlies all teaching, publishing and research activities of the School.



LBS is a member of the Association of African Business Schools (AABS), the Global Business School Network (GBSN), the Principles for Responsible Management Education (PRME) and AACSB International – The Association to Advance Collegiate Schools of Business. LBS is also a member of the Graduate Management Admission Council (GMAC), alongside 220 leading graduate business schools worldwide. GMAC is an organisation of leading graduate management schools in the world and the owner of the GMAT exam.

In recognition of the quality of Lagos Business School's programmes, which are structured in line with global best practices, it has received several international accreditations.

LBS is the first business school in the West, East and Central Africa regions to be accredited by the Association of MBAs (AMBA). This puts LBS amongst the exclusive group of only 2% of business schools in 70 countries to achieve this accreditation. LBS has also been accredited by the Association to Advance Collegiate Schools of Business (AACSB), the first institution to be so recognised in all of West Africa. LBS thus joined the league of less than 5% of business schools globally, to be accredited by AACSB. This accreditation affirms Lagos Business School's commitment, over the last 25 years, to world-class standards in teaching, learning, research, academic and professional management.

The school has been ranked every year, since 2007 by the Financial Times of London, amongst the top global providers of executive education and in custom executive education since 2015.

AUTHOR’S NOTE

DEAR READER,

It gives us great pleasure to present the 2017 edition of the DFS State of the Market in Nigeria. Compared with other developing and emerging economies, Nigeria has the highest number of licensed mobile money operators (MMOs), but the low adoption rates, primarily by the under-banked and unbanked has been worrisome to industry players - regulators and licensees.

The notion supporting digital financial services (DFS), mainly through ubiquitous mobile devices as a magic bullet for enhancing access and utility of financial services is still in its nascent stages.

> The customer segments were profiled using demographic parameters as well as assets and capabilities.

Through research engagements, the various dimensions of Nigeria’s financial inclusion conundrum are the primary focus of the Sustainable and Inclusive Digital Financial Services (SIDFS) Initiative hosted at the Lagos Business School. By generating an evidence base, we aim to provide thought leadership and insights to address the financial inclusion phenomenon across all dimensions of the ecosystem.

In 2016, the Initiative published the first DFS State of the Market Report which focused on two pivotal pillars of financial inclusion development and growth - the demand and supply perspectives. By profiling under-banked and unbanked consumers, we identified characteristics of the underserved from the community, through household and individual lenses. The customer segments were profiled using demographic parameters as well as assets (identity, phone ownership/access) and capabilities (language, digital).

These profiles are intended to enhance supplier know-how and aid product development capabilities. The in-depth analysis of the supply-side identified three (3) business models for delivering sustainable DFS, namely: focused, specialist or a hybrid. The study went further to describe the portfolio of organisational assets, resources and capabilities to efficiently deliver DFS to under-banked and unbanked consumers.

The themes presented in this edition expand the discussion beyond the core ecosystem and provides insights into the institutional frameworks necessary for financial inclusion.

Our presentation focuses on material financial inclusion issues, the guiding laws and solution proposals.

The report addresses the third ecosystem pillar - the institutional/regulatory component, with specific focus on the legislation, policies and regulations. The policy analysis unearthed critical policy constraints and guided by the doctrinal interpretations of existing laws, market-enabling policy solutions evolved. Our presentation focuses on material financial inclusion issues, the guiding laws and solution proposals. This report does not contain legislative bills but forms a premise for the drafting of new laws, policies and regulations.

Finally, these market-enabling policies or solutions for creating an ecosystem for delivering DFS to the unbanked require the cooperation and collaboration of public institutions, the private sector and civil society. Financial inclusion for all is a reality when it is a national priority.

We hope this report enlightens you and enjoins your collaboration in addressing financial inclusion in Nigeria. Happy reading!

December 2017

ACRONYMS

ACRONYM	DESCRIPTION
A2F	Access to Finance
AFI	Alliance for Financial Inclusion
AIP	Approval-in-Principle
AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
API	Application Programming Interface
ATM	Automated Teller Machine
BDC	Bureaux-de-Change
BIS	Bank for International Settlements
BOFIA	Banking and Other Financial Institutions Act
BTCA	Better Than Cash Alliance
BVN	Bank Verification Number
CAC	Corporate Affairs Commission
CAMA	Corporate and Allied Matters Act
CBK	Central Bank of Kenya
CBN	Central Bank of Nigeria
CCM	Competition Commission of Mauritius
CDD	Customer Due Diligence
CENFRI	Centre for Financial Regulation & Inclusion
CFI	Centre for Financial Inclusion
CGAP	Consultative Group for Assisting the Poor
CGT	Capital Gains Tax
CICO	Cash-In Cash-Out
CPA	Consumers Protection Advisory
CPC	Consumer Protection Council
CPF	Consumer Protection Framework
CPMI	Committee on Payments and Market Infrastructures
DDSM	Determination of Dominance in Selected Communications Market
DFI	Development Financial Institution
DFS	Digital Financial Services
DMB	Deposit Money Bank
EFCC	Economic and Financial Crimes Commission
EFInA	Enhancing Financial Innovation and Access
ERGP	Economic Recovery and Growth Plan
FAS	Financial Access Survey
FATF	Financial Action Task Force
FDIP	Financial and Digital Inclusion Project
FIGI	Financial Inclusion Global Initiative
FII	Financial Inclusion Insights
FIRS	Federal Inland Revenue Service
FMT	FinMark Trust
FRC	Financial Reporting Council
FSI	Financial Services Industry
FSP	Financial Service Point
FSRCC	Financial Services Regulation Coordinating Committee
FSS	Financial System Strategy
GDP	Gross Domestic Product
GFI	Global Financial Inclusion Initiative
GPFI	Global Partnership for Financial Inclusion
GPZ	Geo-Political Zone
GSMA	Global System for Mobile Association
ICPC	Independent Corrupt Practices Commission
ICT	Information and Communications Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IMTS	International Money Transfer Services
INFE	International Network on Financial Education
IPA	Innovations for Poverty Action
ISA	Investments and Securities Act
ITF	Industrial Training Fund
ITU	International Telecommunication Union

KYC	Know-Your-Customer
KYCM	Know-Your-Customer Manual
LASAA	Lagos State Signage & Advertisement Agency
MFB	Microfinance Bank
MIX	Microfinance Information Exchange
MMO	Mobile Money Operator
MNO	Mobile Network Operator
MPO	Mobile Payment Operator
MPS	Mobile Payment System
MSME	Micro, Small and Medium Enterprises
NAICOM	National Insurance Commission
NAPEC	National Poverty Eradication Commission
NBS	National Bureau of Statistics
NCA	National Communications Act
NCC	National Communications Commission
NDIC	National Deposit Insurance Commission
NEFT	NIBSS Electronic Funds Transfer
NFIS	National Financial Inclusion Strategy
NIBSS	Nigeria Inter-Bank Settlement System
NIMC	National Identity Management Commission
NIN	National Identity Number
NIPC	Nigerian Investment Promotion Commission
NITDA	National Information Technology Development Agency
NITDEV	Nigerian Information Technology Development
NJC	National Judicial Commission
NLRC	National Lottery Regulatory Commission
NPF	Nigeria Police Force
NPSA	National Payment Systems Act
NRI	Network Readiness Index
NSA	National Security Adviser
NSE	Nigerian Stock Exchange

NYSC	National Youth Service Corps
OECD	Organisation for Economic Co-Operation and Development
OTC	Over the Counter
P2P	Person-to-Person
PCI/DSS	Payment Card Industry/Data Security Standards
PENCOM	National Pension Commission
PFA	Pension Fund Administrator
PFC	Pension Fund Custodian
PFMI	Principles for Financial Market Infrastructure
PMB	Primary Mortgage Bank
PSP	Payments Service Provider
PSSP	Payments Solution Service Provider
PSV	Payments Systems Vision
PTSA	Payment Terminal Service Aggregator
PTSP	Payment Terminal Service Provider
QoS	Quality of Service
ROW	Right-of-Way
RSL	Regulatory Sandbox License
SDG	Sustainable Development Goals
SEC	Securities and Exchange Commission
SFU	Special Fraud Unit
SIM	Subscriber Identity Module
SIP	Social Investment Programmes
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TIP	Trade, Industry or Professional Bodies
UFA	Universal Financial Access
UNCDF	UN Capital Development Fund
UNGSA	United Nations Secretary-General Special Advocate
USPF	Universal Service Provision Fund
USSD	Unstructured Supplementary Service Data
VAS	Value Added Services
VAT	Value Added Tax

EXECUTIVE SUMMARY

Global Dilemma

With over 2 billion people worldwide lacking access to formal financial services, lack of financial inclusion is a global dilemma and its resolution is pertinent to addressing some of the sustainable development goals, especially eliminating poverty and hunger, gender equality and economic growth.

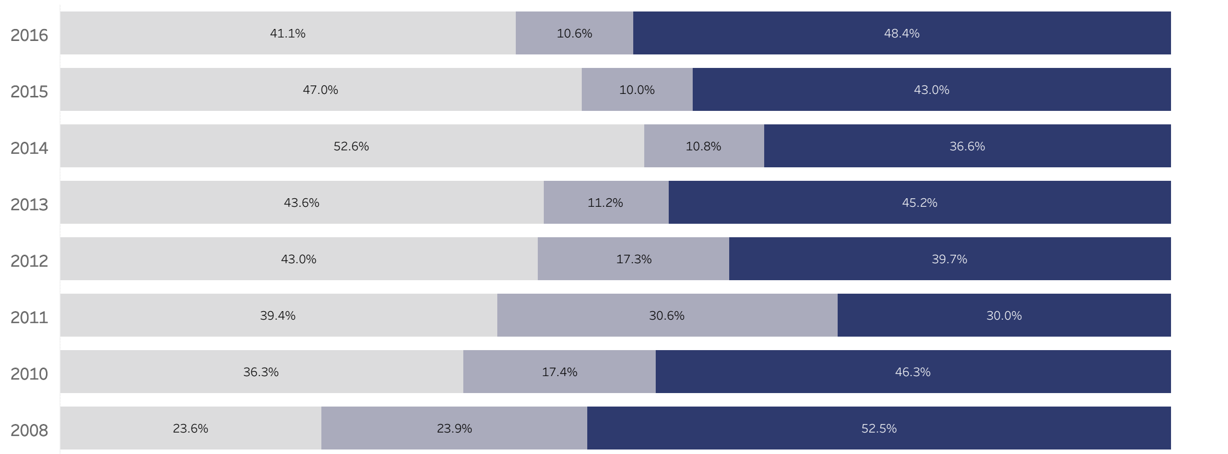
A lot of initiatives and efforts are being devoted to addressing the financial inclusion problem with specific focus on building networks and alliances, enhancing policy, research and advocacy, financing and investments, advisory services, capacity building, measurement and the execution of specific intervention programmes.

The Nigerian Reality

The financial services ecosystem is vibrant and evolving; comprising banking and other financial institutions and payment systems providers and their regulator, the Central Bank of Nigeria (CBN); capital markets institutions regulated by the Securities and Exchange Commission (SEC) and insurance and pension companies regulated by the National Insurance Commission (NAICOM) and Pension Commission (PENCOM) respectively. Despite sector developments, 2016 financial inclusion patterns are below the National Financial Inclusion Strategy (NFIS) target and Maya Declaration commitment of 20 percent financial exclusion by 2020.

Aggregate measurements of data collected by EFInA, Intermedia and the World Bank report higher unbanked populations, indicating a downward turn in financial inclusion progress reported in 2014 (Exhibit 1).

Exhibit 1: Financial access strands



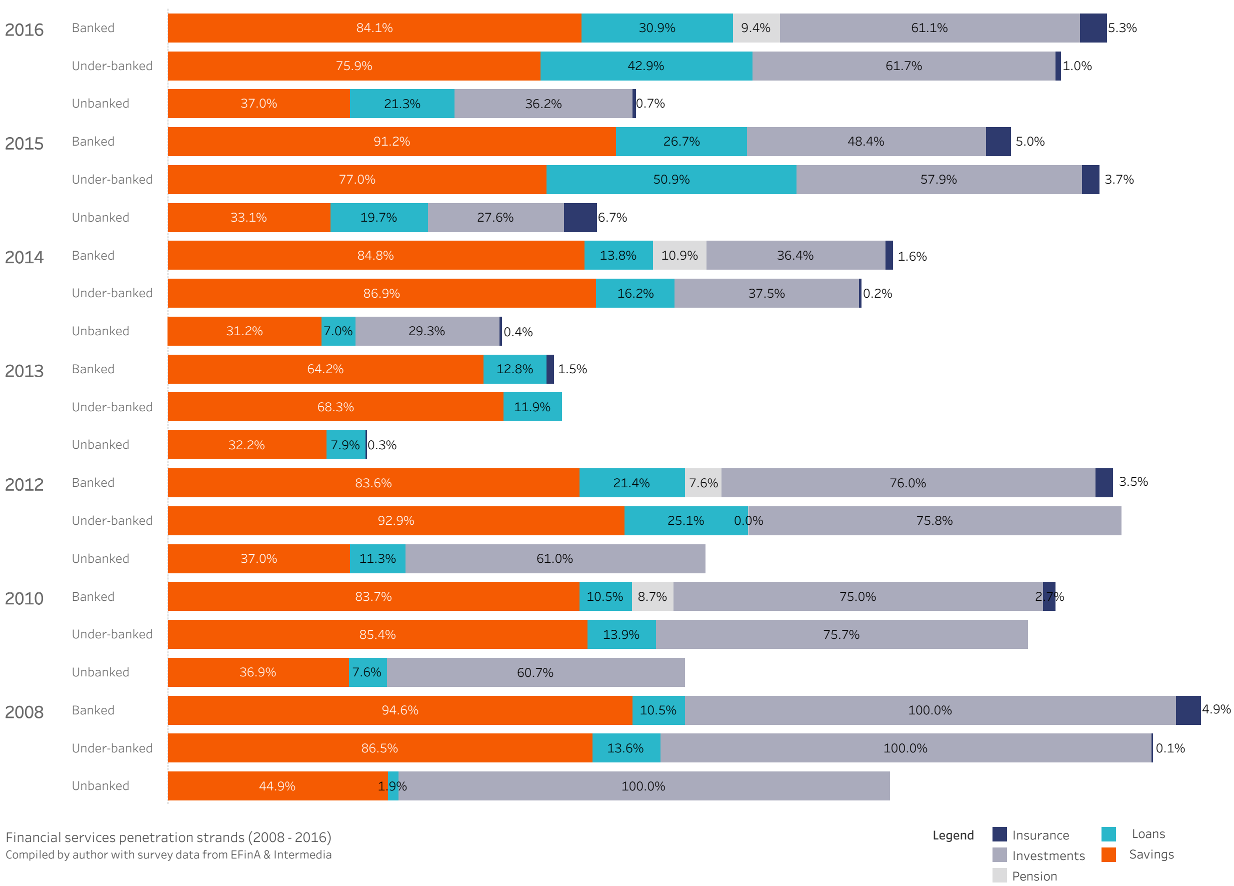
National financial inclusion strands (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

Legend
Unbanked
Under-banked
Banked

Financial Services Penetration

Exhibit 2 illustrates financial services penetration levels among the banked (accessing formal financial services), the under-banked (accessing informal services) and the unbanked (unserved). The chart further illustrates the availability and adoption of informal financial services and other alternatives, especially with the under-banked and unbanked. In the case of the unbanked, access to financial services is supported by self-controlled products such as piggy banks (or other forms of home savings), investments in real estate or livestock and the like.

Exhibit 2: Financial services penetration strands



Financial services penetration strands (2008 - 2016)
Compiled by author with survey data from EFInA & Intermedia

Mobile Money Penetration

Nigeria's digital revolution, evident in high mobile telephone penetration levels, has not impacted the adoption of mobile money and other digital financial services (DFS) aimed at addressing financial inclusion. Since inception, mobile money adoption amongst the under-banked and unbanked has been infinitesimal, with early adopters among the banked. Hence the assumption that DFS and other mobile-based financial services enhance access to financial services is yet to be confirmed in Nigeria. Mobile money awareness and adoption rates are lower among women, who are perceived as being more cautious by nature.

Consumer Profiles

The financial inclusion, access and mobile money penetration data presented clearly emphasises low consumer adoption of financial services - regular and digital. Further analyses of data of the under-banked and unbanked by geographic location, demographic and socio-economic attributes, assets and capabilities are used to build general and gender profiles of prospective financial services consumer-base. The general profiles highlight some distinct differences among the under-banked and unbanked. For example, the unbanked are typically younger, between the ages of 25 and 34 while the under-banked span 25 to 44 and over 65. This trend correlates with the marital status and educational qualifications where a significant proportion of the unbanked are single and without formal education respectively. While women are generally more likely to be financially excluded, unbanked women, particularly in the North West, are more vulnerable. Thus, with 2016's aggregate of 10.6 percent and 48.4 percent among the under-banked and unbanked respectively, solutions to address financial inclusion cannot ignore the role of the spheres of influence (communities and households) as well as individual characteristics (demographic and capabilities).

Policy Evaluation

The policy evaluation across five dimensions - effectiveness, effects, efficiency, appropriateness and feasibility - highlights considerable weaknesses in the policy environment from the perspectives of various stakeholders. The evidence further suggests that the main challenges (policy issues) associated with the delivery of DFS to lower income unbanked Nigerians include:

- **Infrastructure:** availability and access to reliable infrastructure (power, communications, roads, security, etc.)
- **Last Mile Distribution:** availability and access to financial service points at the last mile
- **Know-Your-Customer (KYC):** availability of KYC levels that are appropriate to the consumer needs
- **Identity Management:** availability of a standardised, global national identity management framework and system
- **Interoperability:** facilitating inter-scheme transactions
- **Competition:** frameworks that promote and enhance competition amongst stakeholders
- **Collaboration:** frameworks that promote and enhance collaboration amongst stakeholders, including regulatory agencies
- **Consumer Protection:** trust-building frameworks and practices that protect the interests of consumers
- **Business Environment:** a conducive business environment that promotes sustainable DFS business activities
- **Consumer Education:** frameworks, processes and activities to enhance consumer awareness and literacy, including financial and digital literacy

The Law Relating to DFS

LEGAL FRAMEWORK

The steps taken in the last decade towards a more regulated financial ecosystem are evidence of the Nigerian government's recognition of the importance of DFS in financial systems development. The dedicated, albeit ad-hoc efforts of the relevant regulatory institutions towards issuing sufficient guidelines to ensure a seamless flow of financial transactions has increased the strategic importance of the sector.

While the efforts of the regulatory bodies in developing DFS regulations is noted, the legal nature of most DFS provisions established by regulation lacks statutory backing. Thus, it is crucial to develop these regulations with adequate statutory footing, enhancing the certainty of market participants as regulations are more malleable to political and policy changes. While there are proposed bills, the political will required to pass them into law is fundamental.

Cybercrime, and more particularly, [unethical] hacking of personal data has been a significant impediment to the growth of DFS. The burden of developing the financial sector rests largely on CBN. Thus, CBN is responsible for developing and maintaining a financial system that meets international standards.

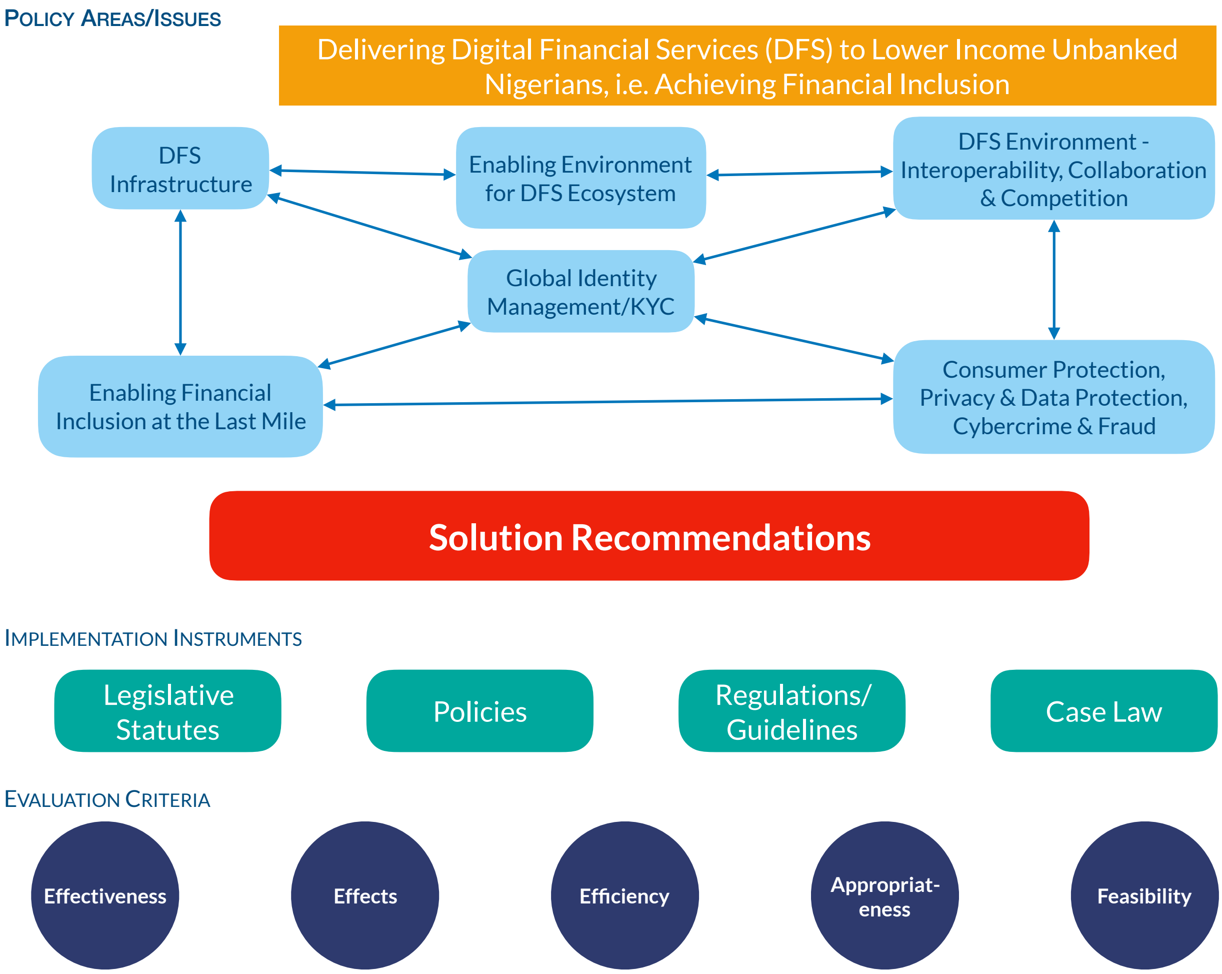
Finally, the involvement of local entities in DFS is important, especially IT platforms and payment systems development. Perhaps, strengthening relevant laws to ensure a minimum local content requirement in DFS provision would assist in achieving this result and create more employment opportunities for Nigerians. Although in practice, it is rare to find in any jurisdiction a single law embodying all aspects of DFS, the enactment of a framework DFS legislation could be a significant evolution that would set new standards for emulation by other countries.

Market-Enabling Policies

The recommendations for review of market-enabling policies for financial inclusion and DFS focused primarily on the six primary policy areas (Exhibit 3), namely:

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

Exhibit 3: Policy framework



GLOBAL IDENTITY MANAGEMENT/KNOW-YOUR-CUSTOMER (KYC)

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.

CONSUMER PROTECTION, PRIVACY AND DATA PROTECTION, CYBERCRIME AND FRAUD

Policy changes required include: reduction of charges, disclosure of fees and actual cost of services, enhanced access to service through greater deployment of agents and consumer education by active implementation of the National Financial Literacy Framework. Legislation meant to promote consumer contractual rights should be drafted in easy-to-understand English, detailed rules on unfair contract terms should go beyond those contained in the Electronic Transaction Bill, the availability of consumer-friendly dispute resolution systems, comprehensive legislation on data protection, fraud insurance, as well as active enforcement by the Consumer Protection Council were also recommended.

Cultural sensitivity in designing policy and regulatory interventions are also critical, as are enhanced anti-cybercrime rules, frameworks and administrative arrangements.

DFS ENVIRONMENT: INTEROPERABILITY, COLLABORATION AND COMPETITION

The introduction of cost-reflective tariffs, cross subsidisation by the high end of the market for the low end, better regulator-operator collaboration and a market led approach, emphasising use of economic and other incentives to drive up financial inclusion are some of the key recommendations

ENABLING FINANCIAL INCLUSION AT THE LAST MILE

Adequate public education and awareness using the media, especially radio, Nollywood movies, youths employed on the N-Power scheme, industry initiatives and complementary programmes were some of the key recommendations in this area. Likewise, regulations should institute instant settlement for risk-free transactions, especially for micro- and small business enterprises providing agency or merchant services - or possibly for the entire ecosystem.

ENABLING ENVIRONMENT FOR DFS ECOSYSTEM

Bespoke research programmes, evidence based policy reforms and regulatory management, harmonised cross sectoral regulation, discouragement of cash transactions, harmonised taxation measures and processes, as well as complementary policies by sub-national governments, particularly on right of way pricing for infrastructure, are key areas for reform highlighted. The registration of software as inventions under the Patent and Designs Act and extension of copyright protection to layouts and integrated circuits are also recommended, hence deserving of consequential statutory amendments.

DFS INFRASTRUCTURE

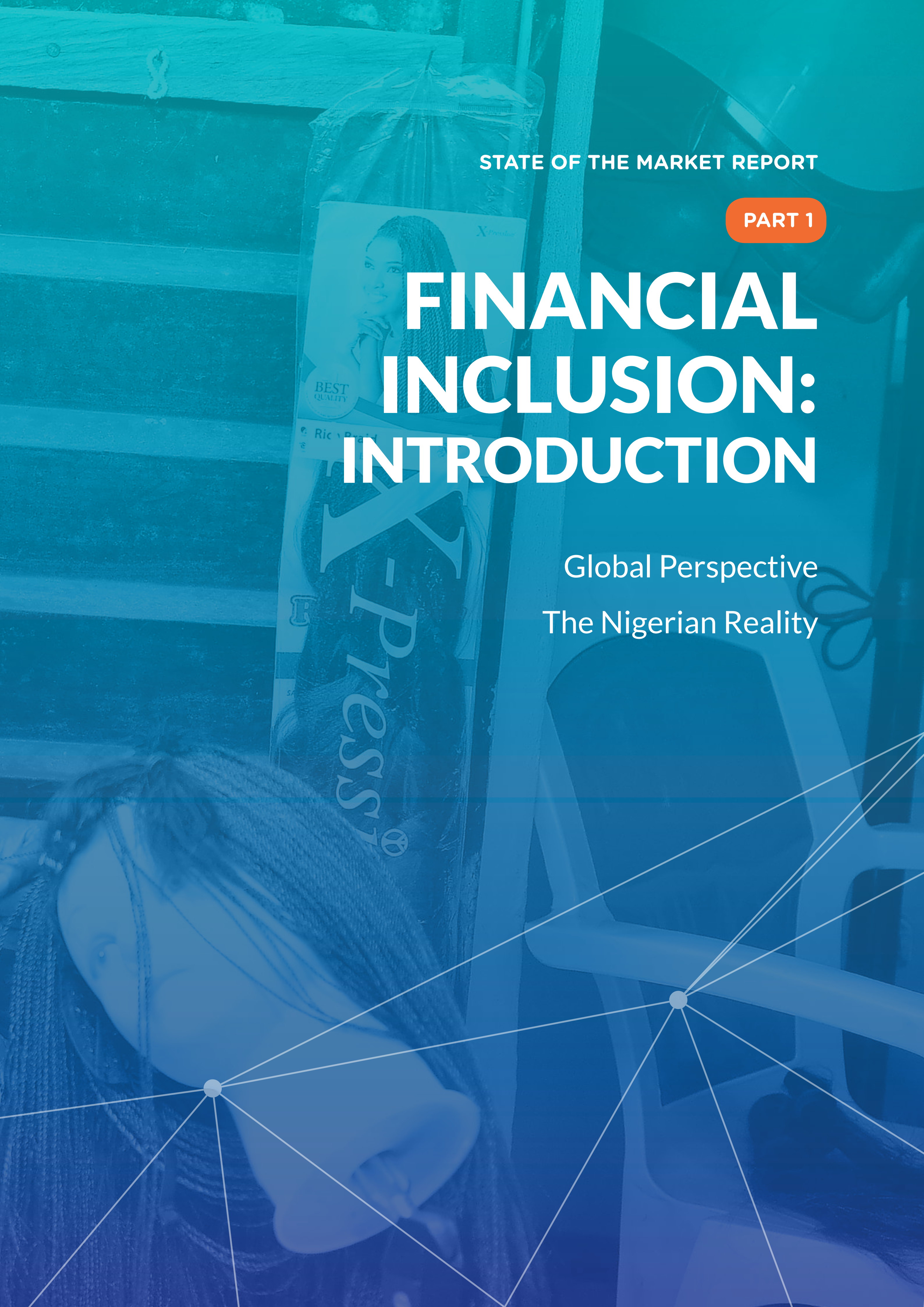
Active deployment of rural telephony by means of focused implementation of the Universal Access and Universal Service Regulation 2007 (USPF), the Nigerian Technology Development (NITDEV) Fund and review of spectrum pricing by NCC were key recommendations for policy reform. CBN could also assist by providing low-interest rates for rural telecommunication projects and favourable foreign exchange policies for the telecommunication sector. The designation of critical national infrastructure under the Cybercrime Act by the President and National Security Adviser, quick enactment of the Critical Infrastructure Bill and adequate protection of telecommunication infrastructure are also urgently required.

Conclusion

Financial inclusion goes beyond banking and payments. It addresses economic development and gender inclusion goals which are also critical to national development. The levers of financial inclusion fall across three pivotal nodes - the consumer (demand), the provider (supply) and the government (institutions).
Financial inclusion is a prerequisite for eradicating poverty and achieving the sustainable development goals (SDGs). A legislative bill establishing the National Poverty Eradication Commission (NAPEC) was passed in 2016 but is yet to become a substantive legislation. Financial empowerment and independence can be employed to address gender inequality and the rights of women.

Addressing financial inclusion can be likened to killing multiple birds with one stone and as such, it calls for an inclusive approach that will have far-reaching impacts on development. However, the range of market-enabling policy recommendations required to stimulate financial inclusion and DFS further highlight implementation and enforcement gaps attributed to capacity, institutional frameworks, political will and other factors that question the efficacy of current interventions.

There is no magic pill to solve the challenge of slow progress in the attainment of Nigeria's goal of reducing financial exclusion to 20 percent by 2020. However, better evidence-based research on the precise nature of the problem and ameliorative policy reform measures that this research report presents, if promptly adopted and systematically implemented, should greatly aid the race to achieve the goal of 80 percent financial inclusion by 2020.



STATE OF THE MARKET REPORT

PART 1

FINANCIAL INCLUSION: INTRODUCTION

Global Perspective

The Nigerian Reality

FINANCIAL INCLUSION: **GLOBAL PERSPECTIVE**

According to the World Bank, more than 2 billion people remain financially excluded.

Financial inclusion or the provisioning of financial services to the underserved is a focal discussion topic within countries, governments and development agencies. In countries with high rates of financial exclusion, regional and national strategies to close the gaps and active monitoring of the phenomenon by financial services deepening organisations have emerged.

Through the Universal Financial Access (UFA) 2020 initiative, the World Bank has prioritised financial inclusion. By 2020, the UFA goal is to ensure adults currently lacking access to formal financial systems gain access to a transaction account and are able to send and receive payments. Through targeted interventions, the initiative is committed to providing 1 billion people with transaction accounts.

The global financial inclusion initiatives support network development as well as measurements, investments, policy, research and advocacy, DFS (mobile money), consulting and the execution of various in-country intervention programmes.

Achieving Sustainable Development Goals

The UN General Assembly in December 2015 adopted a resolution stressing the importance of financial inclusion as a key tool for implementing many of the vital development goals enshrined in the new Sustainable Development Goals (SDGs). The key SDGs include eliminating poverty, gender inequality, hunger, and building economic growth.

Eliminating poverty: Financially included individuals are better equipped to save and plan, thus, improving their economic wellbeing and standard of living. Access to credit also empowers low income earners to invest in agriculture thus increasing productivity, food security and increasing the sector's contribution to GDP. Research shows that access to financial services is a key indicator of how an individual builds and maintains reserves, plans and prioritises, and manages and recovers from financial shocks.[1] Such savings, when invested in small businesses, provide income flows that helps pay for food, education and health which are all indices for poverty measurement.

Zero hunger: Financial inclusion plays an instrumental role in eliminating hunger, especially among those trapped in poverty - living in rural areas and excluded from the formal financial services system. Access to financial services such as savings provide poorer households access to monies for food in times of crises.

Gender inequality: Access to financial services enables women to manage their finances and be less dependent on their spouses. This financial independence, especially during crises, reduces female vulnerabilities to minor shocks. Also, despite other prevailing cultural factors, research shows that women, when financially empowered, are more productive than men. Although the ability to save is correlated with regular income flow, research has shown that rural women with basic accounts have been able to significantly grow their income and increase the quality of life of their households. With increasing efforts towards increasing women's access to financial services, several economies are now promoting policies that give women the right to full economic participation, thus lowering gender inequality.

Economic growth: Access to savings and credit (financial inclusion) stimulates economic activity that ultimately increases employment, outputs or gross domestic product (GDP) and economic growth. McKinsey Global Institute[2] estimates that including 1.6 billion individuals into the financial system by 2025 could boost annual GDP of all emerging economies by $3.7 trillion.

Global Initiatives for Financial Inclusion

NETWORKS AND ALLIANCES

Under the auspices of global multilateral agencies such as the United Nations, the G20, the World Bank and others, stakeholder groups have been established to discuss and advance financial inclusion, promote cooperation, accelerate the deployment of digital payment systems and the like. Worthy of note is the Maya Declaration, which is the world's first commitment platform of the Alliance for Financial

1 Centre for Financial Services Innovation (CFSI)(2017). "Beyond Financial Inclusion: Financial Health as a Global Framework", Centre for Financial Inclusion at Accion

2 McKinsey Global Institute (2016). "Digital Finance for All: Powering Inclusive Growth in Emerging Economies", McKinsey & Company

Inclusion (AFI) to unlock the economic and social potential of the 2 billion unbanked global population. AFI member institutions make concrete financial inclusion targets, implement in-country policy changes, and regularly share progress updates. AFI also hosts regional policy initiatives in Africa, the Caribbean and the Pacific Islands.

POLICY

The network forums targeting policymakers such as the Organisation for Economic Co-Operation and Development (OECD) International Network on Financial Education (INFE) and the AFI's regional policy initiatives engage on themes such as financial education and support the development of policy and regulatory frameworks respectively. Also, the G20's Global Partnership for Financial Inclusion (GPFI) supports policy efforts through the continuous monitoring and evaluation of ongoing financial inclusion work.

RESEARCH AND ADVOCACY

While some institutions support financial inclusion research and advocacy programmes, some like the United Nations Secretary-General Special Advocate (UNGSA) for Inclusive Finance for Development focus on specific themes. Others like INFE focus on a particular topic - financial literacy. The Better Than Cash Alliance (BTCA) is another thematic initiative supporting the transition from cash to digital payments; and the Centre for Financial Regulation & Inclusion (Cenfri) focuses on supporting financial inclusion and financial sector development. Also, the independent subsidiary, the MasterCard Centre for Inclusive Growth, combines data, expertise, technology and philanthropic investments to build and empower a community of thinkers, leaders and innovators to advance fair and sustainable financial inclusion and economic growth around the world. To encourage financial services providers in developing countries to focus on the needs and expectations of the poor, the MasterCard Foundation also hosts an annual symposium on financial inclusion. ACCION's Centre for Financial Inclusion (CFI) is an action-oriented think tank that engages and challenges the industry to serve better, protect and empower customers. Specifically addressing the poor is the Global Financial Inclusion Initiative (GFI) of the Innovations for Poverty Action (IPA). It works to identify and rigorously evaluate innovative products and programs that enhance poor households' access to and use of improved financial services.

MEASUREMENT

Access to data and financial sector measurements form an integral aspect of financial system development. While measurement initiatives are predominantly market or region based, the Global Findex database is a World Bank initiative and is the most comprehensive database on financial inclusion. The database provides in-depth data on individuals' saving, borrowing, payment, and risk management behaviours. Also, the International Monetary Fund's (IMF) Financial Access Survey (FAS), provides supply-side data on the access and use of financial services by individuals and enterprises around the world. The Microfinance Information Exchange (MIX) is an online data platform that supports decision-making activities of the industry through information on market conditions, individual FSP performance, and the financial inclusion landscape. Also, Intermedia's Financial Inclusion Insights (FII) is a research program in eight countries in Africa and Asia. FII provides in-depth survey data and practical knowledge of demand-side DFS trends. Another is FinMark Trust (FMT) which is an independent trust with the objective of making markets work for the poor. The trust supports financial inclusion information and research and is known as FinMark/Finscope or Enhancing Financial Innovation and Access (EFInA), in Nigeria.

DFS

At the core of DFS are the Financial Inclusion Global Initiative (FIGI) of the World Bank Group, International Telecommunication Union (ITU), the Committee on Payments and Market Infrastructures (CPMI), and the mobile money programme of the Global System for Mobile Association (GSMA). FIGI is a global program that aims to advance research in digital finance and accelerate digital financial inclusion focusing on three different "model" developing countries - China, Egypt and Mexico. GSMA's mobile money programme supports members and industry stakeholders to increase the utility and sustainability of mobile money services and increase financial inclusion. Finally, the FICO Financial Inclusion Initiative focuses on the development of new scoring products, partnerships, services, and platforms to empower lenders to optimise decision making and financial inclusion efforts.

ADVISORY

Consulting companies such as Microsave, Dalberg and McKinsey are also active in supporting the financial services ecosystem. MicroSave, an international financial inclusion consulting firm, is unique in its quest to strengthen institutional capacities and enhance the delivery of market-led, scalable financial services to all people.

INTERVENTION PROGRAMMES

There are alliances that focus on action-oriented intervention programmes managed by institutions such as the Consultative Group for Assisting the Poor (CGAP), BTCA, and the UN Capital Development Fund (UNCDF). While CGAP and BTCA complement the World Bank and GPFI respectively, UNCDF supports various inclusive finance programmes with capital and technical support. The UNCDF programmes ensure that households and small businesses gain access to financial services, expand opportunities, and reduce vulnerabilities.

CAPACITY BUILDING

The development of capacity in digital payments and financial inclusion capacity for regulators, donors, financial service providers and other parties operating in the emerging markets is supported by numerous programmes. Leading capacity building providers are Cenfri, the Helix Institute of Digital Finance and Digital Frontiers Institute (DFI).

INVESTMENTS

Aligned with the UFA 2020 initiative, the International Finance Corporation (IFC) has made investments in key projects that advance the UFA 2020 goal of providing access to transaction accounts and the ability to send and receive payments.

FINANCIAL INCLUSION: THE NIGERIAN REALITY

In 2012, Nigeria became a signatory to the Maya Declaration, committing to reducing financial exclusion to 20 percent by 2020.

Financial Services Industry: Overview

The financial services industry (FSI) in Nigeria comprises various actors providing wholesale and retail services and is guided by different regulators and legislative statutes (Table 1). The stratification of consumer financial services illustrated in (Figure 1) highlights the progression from the primary store of value in the form of a transactional account and the conduct of simple payments to credit and protection services like saving/investments and insurance. Thus, transactional accounts and payments, being the entry point to consumer financial services, are the primary evaluation criterion of financial inclusion measurement. This introduction presents industry actors and trends and patterns by these categories - banked, under-banked and unbanked.

STATE OF MOBILE MONEY

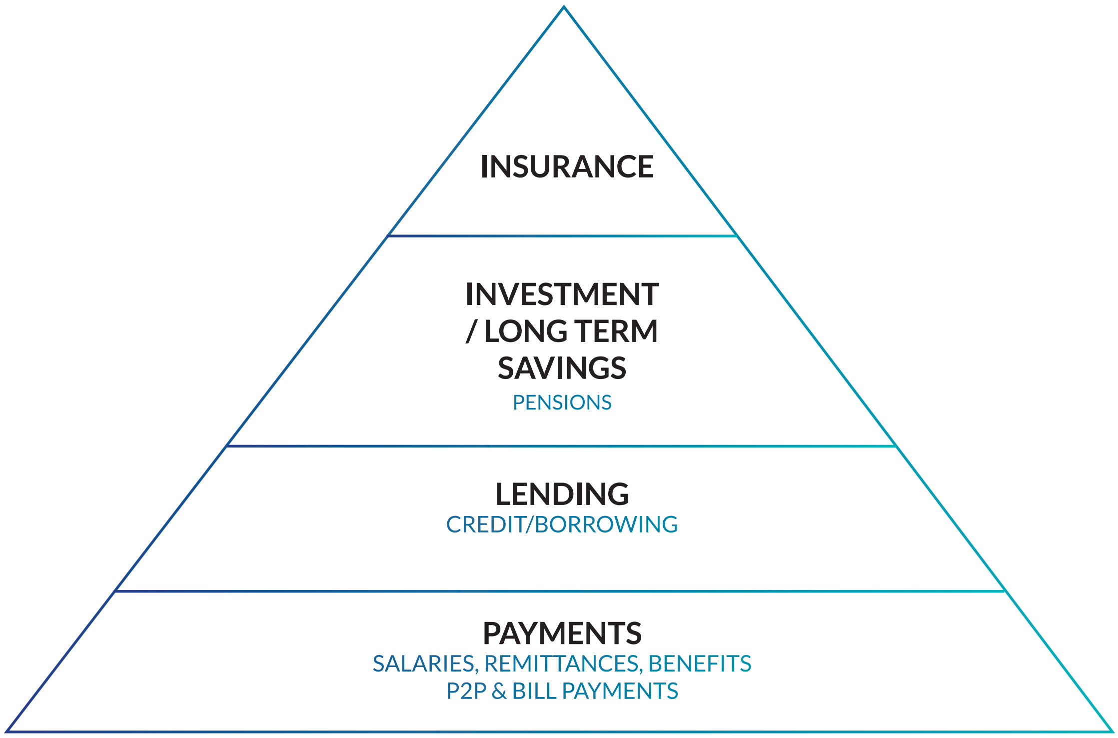
INDICATORS	CATEGORY	2013	2014	2015	2016
MOBILE MONEY OPERATORS	Independent / bank-led			13/8	17/9
FINANCIAL ACCESS	Banked	48.5%	52.6%	47.0%	41.1%
	Under-Banked	8.5%	10.8%	10.0%	10.6%
	Unbanked	43.0%	36.6%	43.0%	48.4%
FINANCIAL SERVICES PENETRATION	Savings			64.8%	60.0%
	Loans			26.1%	27.4%
	Insurance			5.6%	2.5%
	Investments			40.8%	23.7%
MOBILE MONEY	ACTIVE USE	0.3%	0.8%	0.1%	1.1%
	AWARENESS	12.3%	12.9%	15.8%	14.0%
MOBILE MONEY ACCOUNTS	REGISTERED	0.1%	0.5%	0.8%	1.3%
	ACTIVE	0.1%	0.6%	0.1%	1.0%
MOBILE PHONE	OWNERSHIP	91.3%	75.5%	86.5%	59.4%
	ACCESS	95.9%	93.5%	92.2%	69.4%

Table 1

Industry	Sub-categories	No. Operators	Regulator(s)/Legal Framework
Banking	Commercial Banks	23	**Central Bank of Nigeria (CBN)** **Nigeria Deposit Insurance Corporation (NDIC)** CBN Act (as amended in 2007) NDIC Act, 2006 Banks and Other Financial Institutions (BOFI) Act, 1991 (as amended in 1997, 1998, 1999 and 2002)
	Development Finance Institutions (DFI's)	6	
	Merchant Banks	5	
	Micro-finance Banks (MFBs)	1023	
	Non-Interest Banks	1	
	Primary Mortgage Banks (PMBs)	35	
Other Financial Institutions	Bureaux-de-Change (BDCs)	2991	
	Discount Houses	5	
	Finance Companies (FCs)	64	
Payment System	Switching/Processing Companies	8	
	Mobile Payment Operators (MPO)	23	
	Payment Terminals Service Providers (PTSP)	18 (Licensed) 5 (AIP)	
	Payment Terminal Service Aggregator (PTSA)	16	
	Card Scheme Operators	4	
	Payments Solution Service Provider (PSSP)	6 (Licensed) 6 (AIP)	
	Super-Agents	2	

Capital Markets	Securities/Commodity Exchanges/Capital Trade Points	4	**Securities and Exchange Commission (SEC)** Investment and Securities Act (ISA), 2007
	Futures, Options and Derivatives Exchanges	1	
	Depository, Clearing and Settlement agencies	1	
	Issuing Houses Securities dealers/Stockbrokers/Sub-brokers Registrars/Transfer agents Trustees Investment Advisers	447	
	Reporting Accountants Solicitors	527	
Insurance	General Insurance	31	**National Insurance Commission (NAICOM)** Insurance Act, 2003 National Insurance Commission Act No 1 of 1997
	Life Insurance	15	
	Composite Insurance	14	
	Insurance Brokerage	300	
Pensions	Pension Fund Administrators (PFA)	21	**Pension Commission (PENCOM)** Pension Reform Act, 2004
	Pension Fund Custodians (PFC)	4	
	Closed Pension Fund Administrators	7	

Figure 1: Consumer financial services pyramid



Hierachy of consumer financial services

Source: Jain A Zubenko,O., & Carotenuto, G.(2014). A Progressive Approach to Financial Inclusion. MasterCard Advisers

Financial Services: Trends and Patterns

OPERATIONAL DEFINITIONS

The following operational definitions are employed in classifying the data sets presented in this report:

- **Banked:** An individual who owns or operates a bank account with either a deposit money bank (DMB) or microfinance bank (MFB) or uses services provided by other financial institutions such as insurance companies, pensions or capital market operators.

- **Under-banked:** An individual with access to informal financial services such as *Ajo*, *Esusu*, etc.

- **Unbanked:** An individual who does not own or operate a bank account and does not participate in other informal financial services. Such individuals save (at home), solicit support from family and friends and invest in real estate (land) and livestock that can be converted to cash when needed.

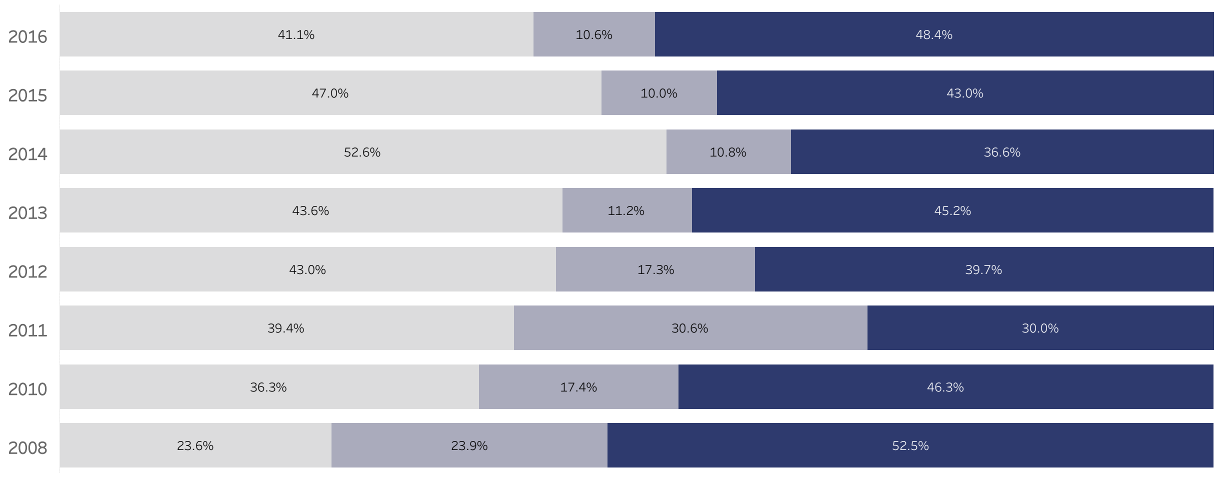
Financial Inclusion

Financial inclusion measures provide useful insights into consumer perceptions and adoption of financial services.

Measures of financial inclusion commenced in 2008 with the access to finance (A2F) survey conducted by EFInA. This bi-annual study is the most extensive nationwide measure of financial inclusion and has become the defacto measure. Other examples are the annual Intermedia financial inclusion insights (FII) that commenced in 2013 followed by the World Bank Global Findex. With measurements in 2011 and 2014, Global Findex is set to release 2017 indices by Q2 2018.

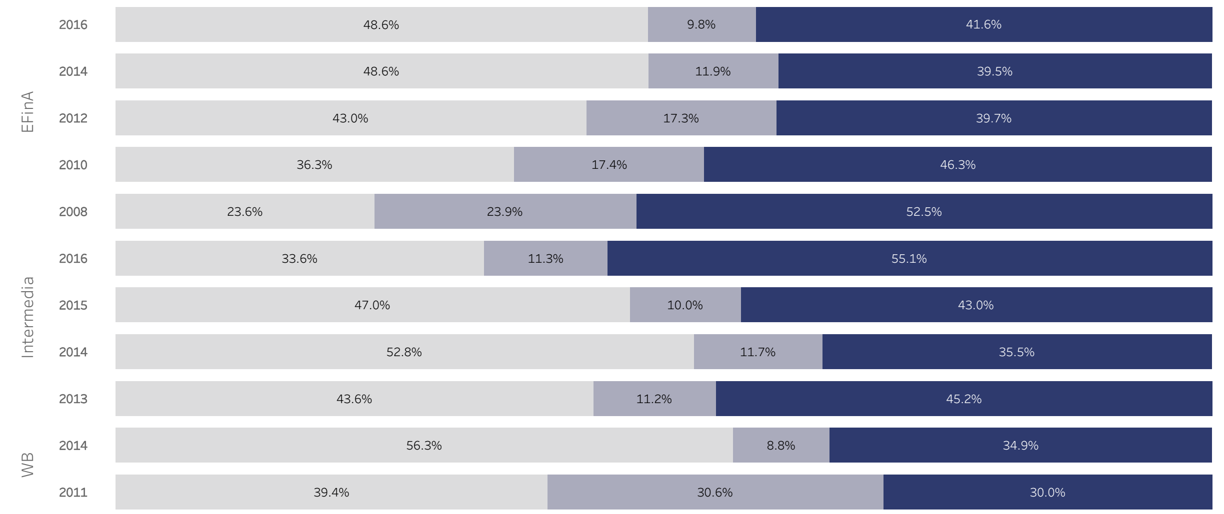
The summary analyses of the financial inclusion strands show positive and robust growth amongst the banked and steady decline of the under-banked (Figure 2, Figure 3 and Figure 4). The gender breakdown highlights significantly lower penetration rates amongst women, especially with formal banking services. However, while the general trends show a decline of the unbanked, the reduction rates are either minimal or non-existent, especially among the male populations (Figure 5, Figure 6 and Figure 7).

Figure 2



National financial inclusion strands (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

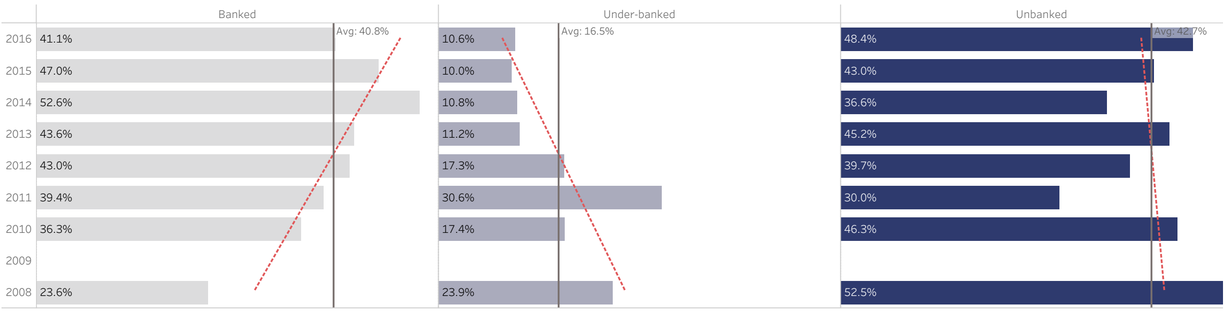
Figure 3



National financial inclusion strands (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

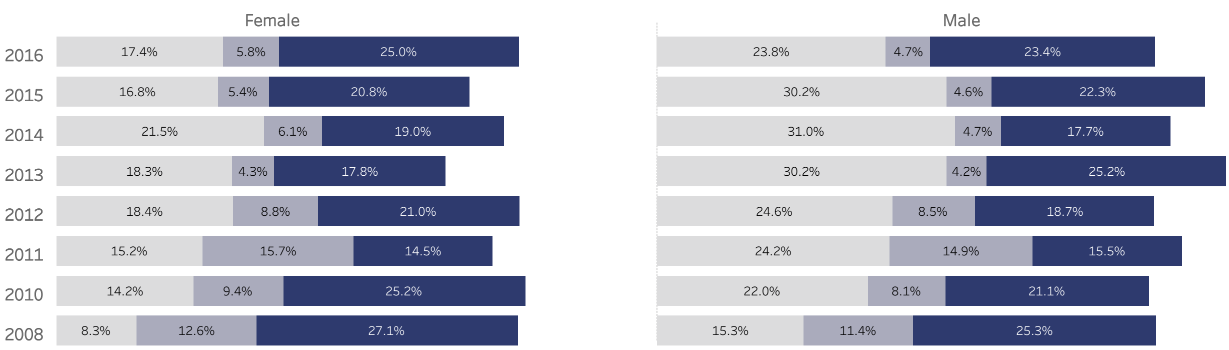
Legend: Unbanked, Under-banked, Banked

Figure 4



National financial inclusion summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

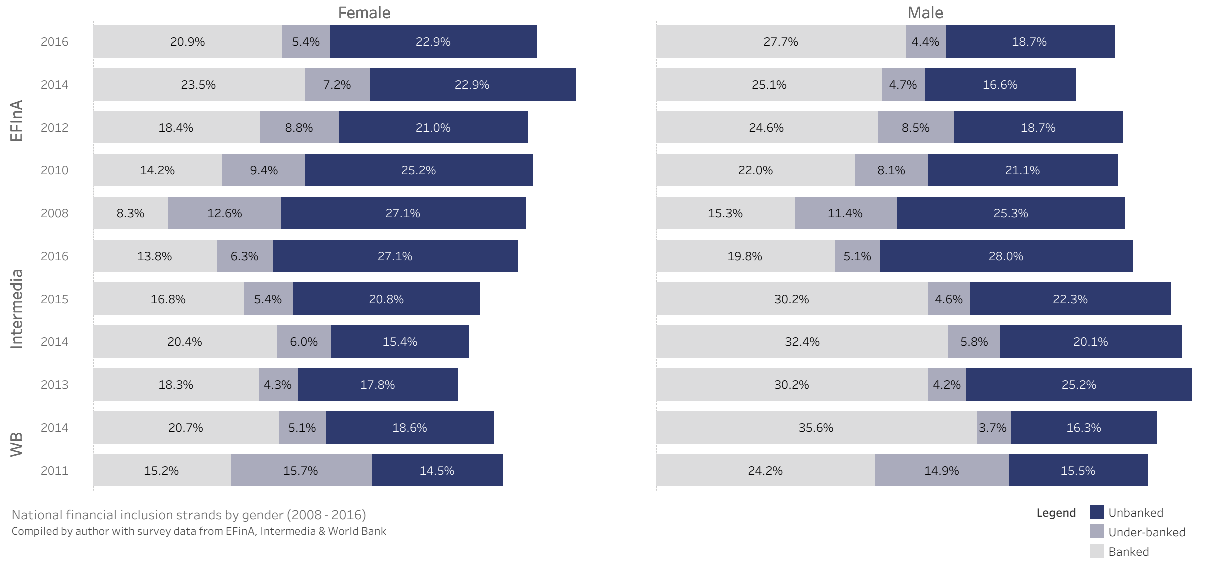
Figure 5



National financial inclusion strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

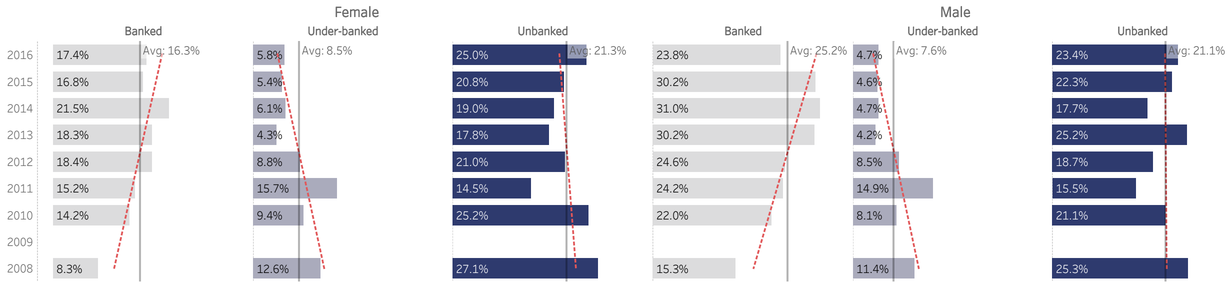
Legend: Unbanked, Under-banked, Banked

Figure 6



National financial inclusion strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

Figure 7



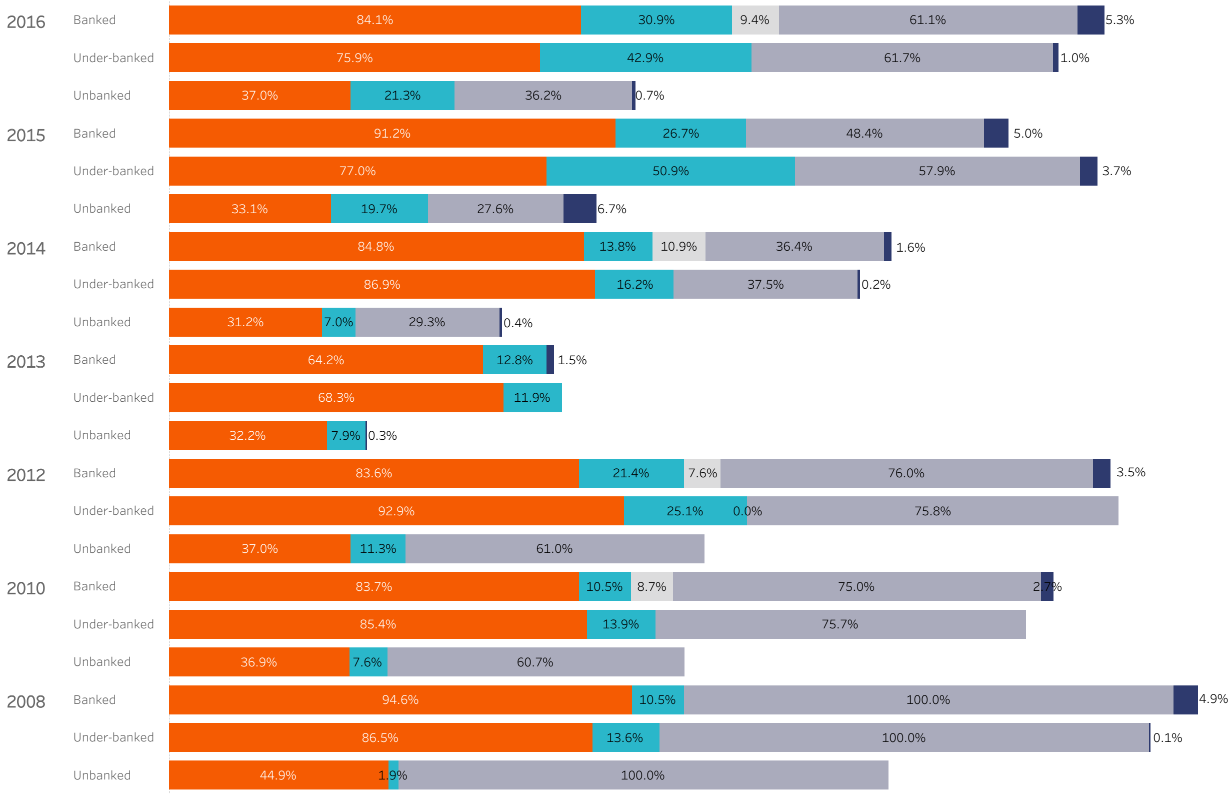
National financial inclusion sumary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

Financial Services Penetration

Insurance penetration among the banked, under-banked and unbanked is below 1 percent.

The consumer financial services penetration statistics indicate the types of financial services available, and reveal moderate-levels of activity. The financial services penetration charts, Figure 8 and Figure 9, present some expected and unexpected patterns. First, the charts confirm the importance and relevance of all financial services, albeit the unbanked having the lowest levels of access. Second, they demonstrate higher financial services penetration levels amongst the banked. Third, they confirm the availability of informal alternatives for all types of financial services. Finally, they demonstrate the reliance of self-managed financial services.

Figure 8



Financial services penetration strands (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Legend: Insurance, Loans, Investments, Savings, Pension

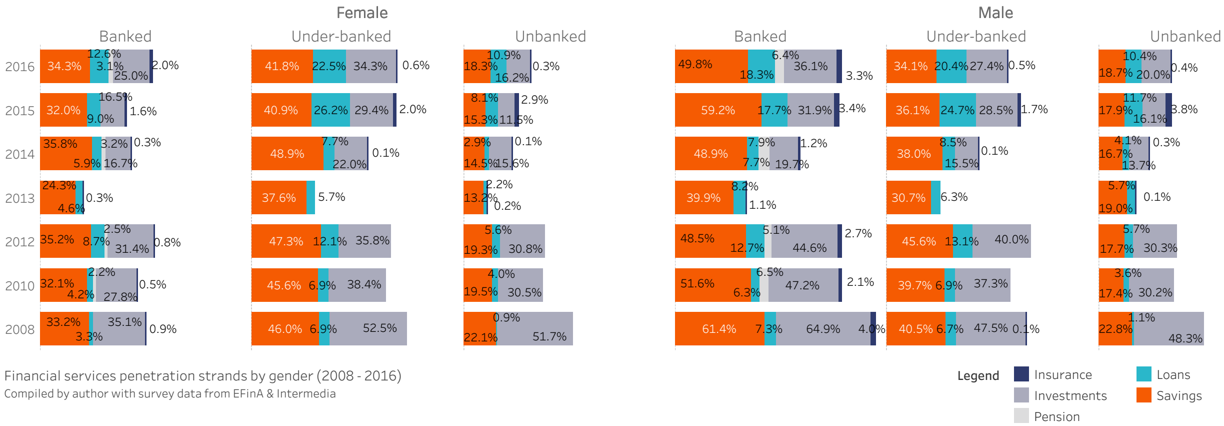
Figure 9

Financial services penetration summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

GENDER TRENDS

The distribution by gender is consistent with general population patterns and does not indicate any perceived threats to the female population (Figure 10 and Figure 11).

Figure 10



Financial services penetration strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 11

Financial services penetration summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Mobile Money Penetration

Lack of mobile money awareness amongst under-banked and unbanked consumers inhibits adoption.

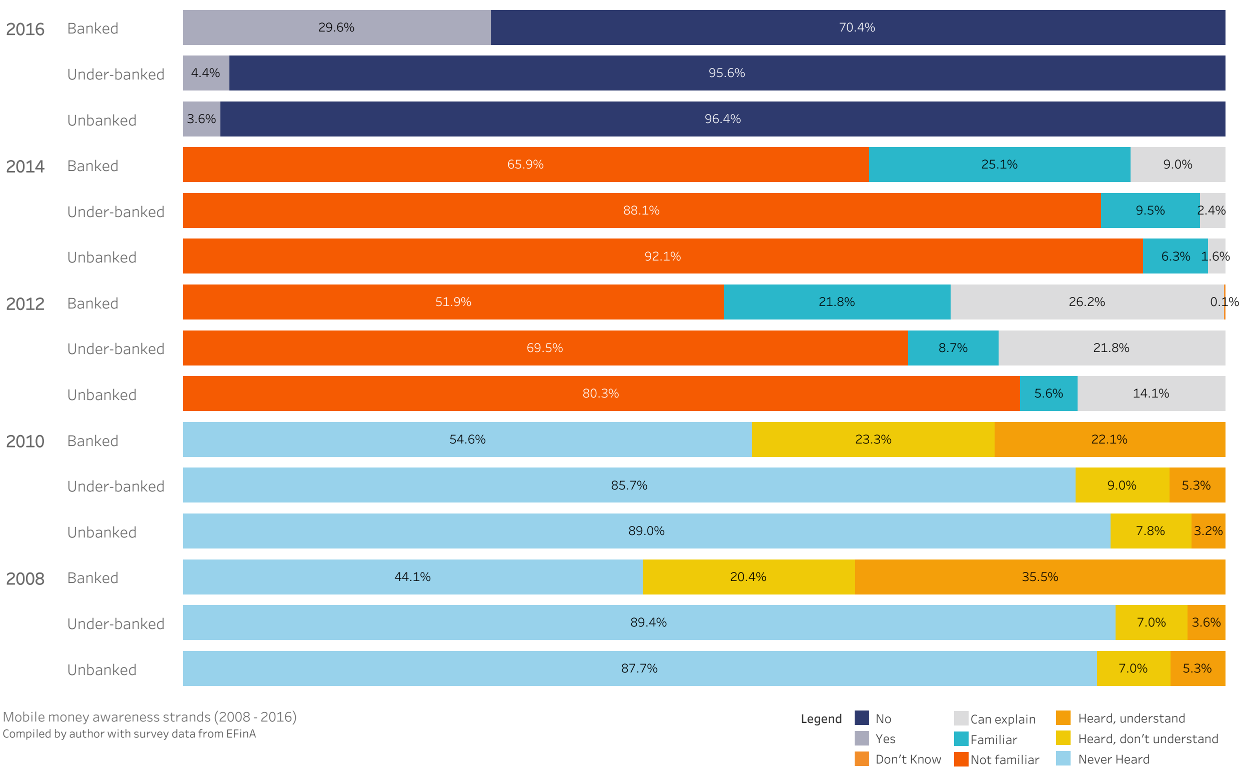
The seeming ubiquity of mobile devices and the leapfrog advantage communications technologies provided to infrastructure-challenged African marketers, have promoted DFS such as mobile money as a mechanism for bridging financial inclusion as has been the case through access to digital transactional accounts otherwise known as e-wallets.

Nigeria, like other countries, identifies the intrinsic opportunities of DFS, and is taking decisive actions such as establishing guidelines for mobile money, agent banking and super-agent operations, tiered know your customer (KYC) levels, among others. However, since the introduction of these statutes, financial exclusion levels remain high, hindered by a lack of awareness (Figure 12 to Figure 15) that inherently impact utility (Figure 16 to Figure 19).

GENERAL TRENDS

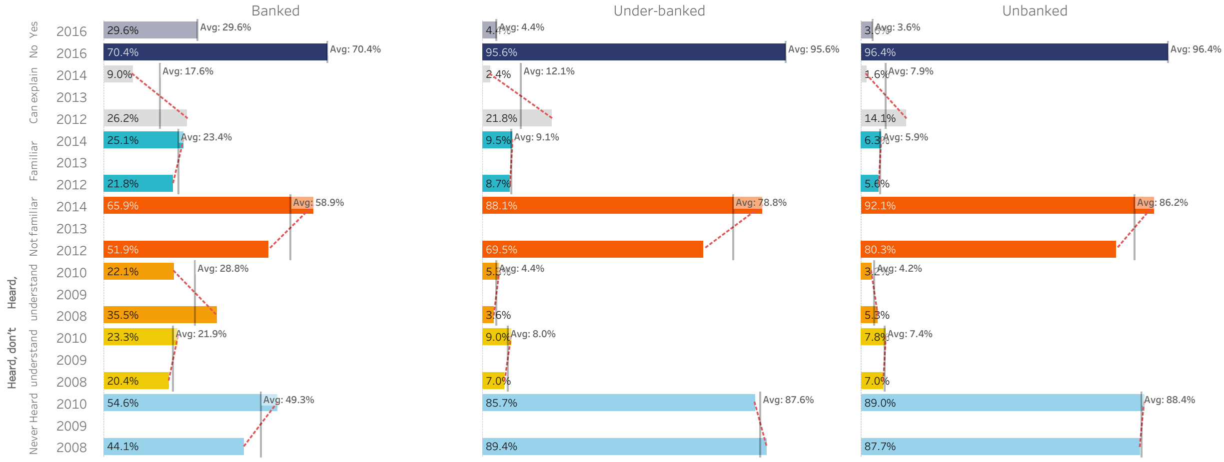
Mobile money utility levels are higher amongst the already served or banked populations. The charts distinguish between utility and enrolment levels, highlighting that women generally are slower to adopt.

Figure 12



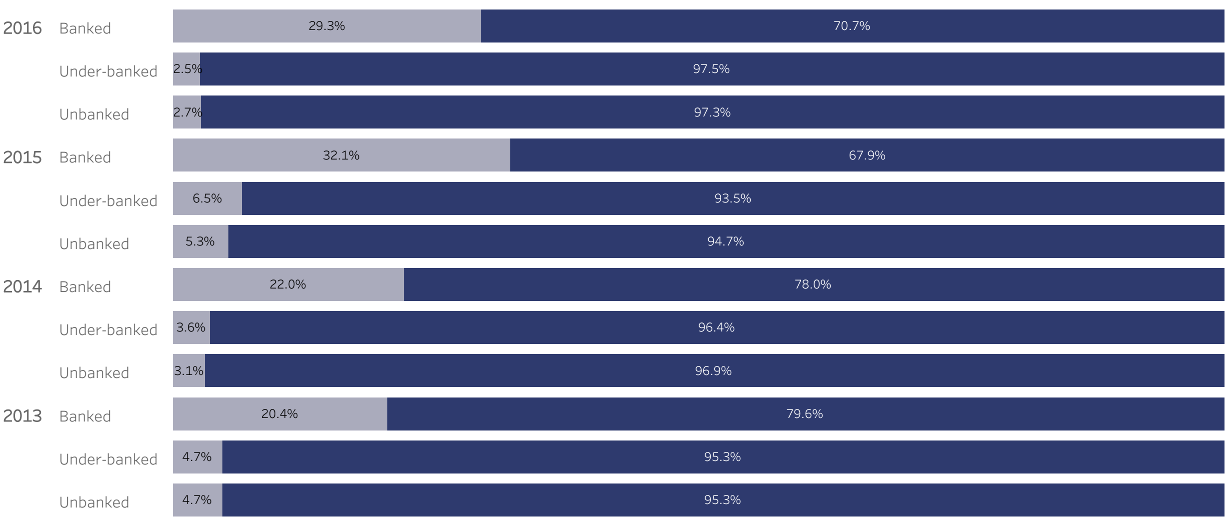
Mobile money awareness strands (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 13



Mobile money awareness summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA

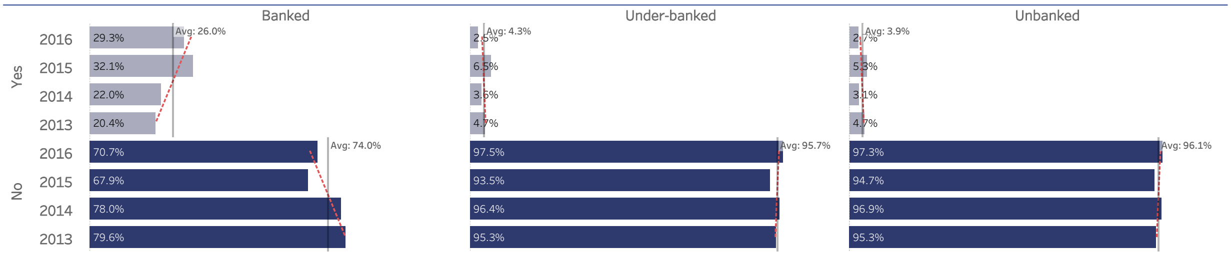
Figure 14



Mobile money awareness strands (2013 - 2016)
Compiled by author with survey data from Intermedia

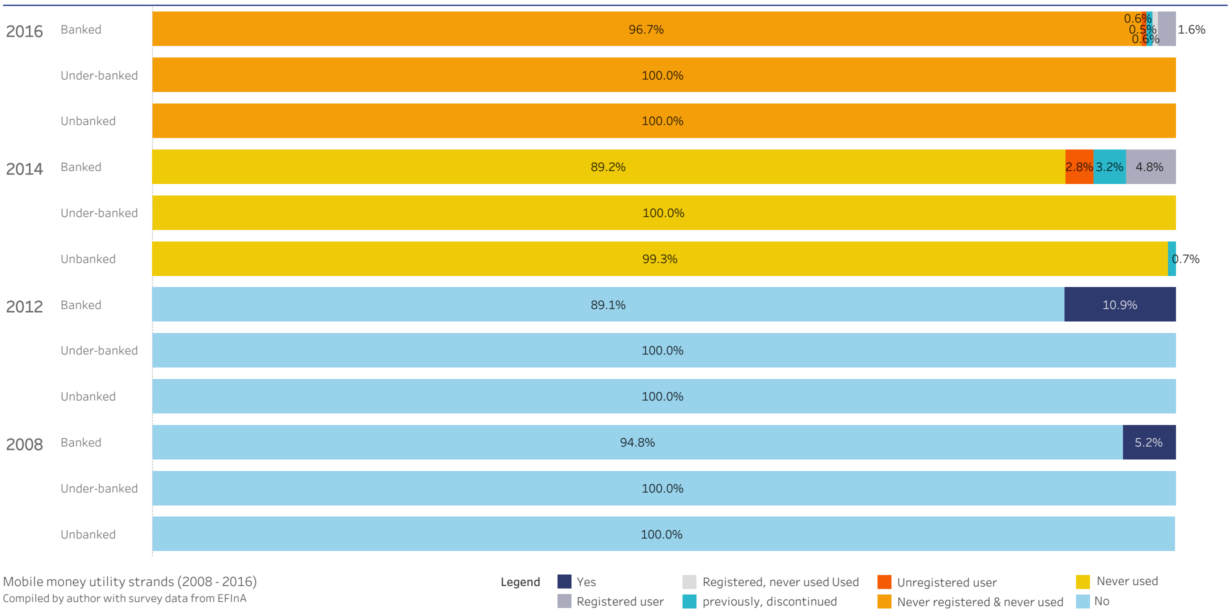
Legend ■ No ■ Yes

Figure 15



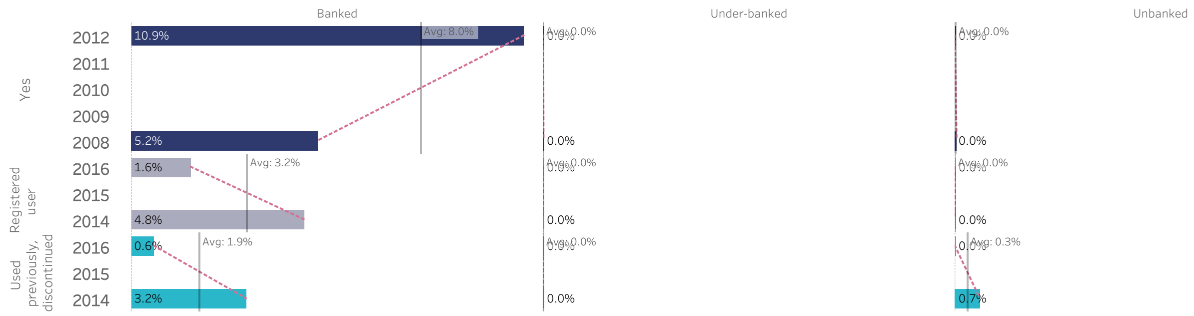
Mobile money awareness summary analysis (2013 - 2016)
Compiled by author with survey data from Intermedia

Figure 16



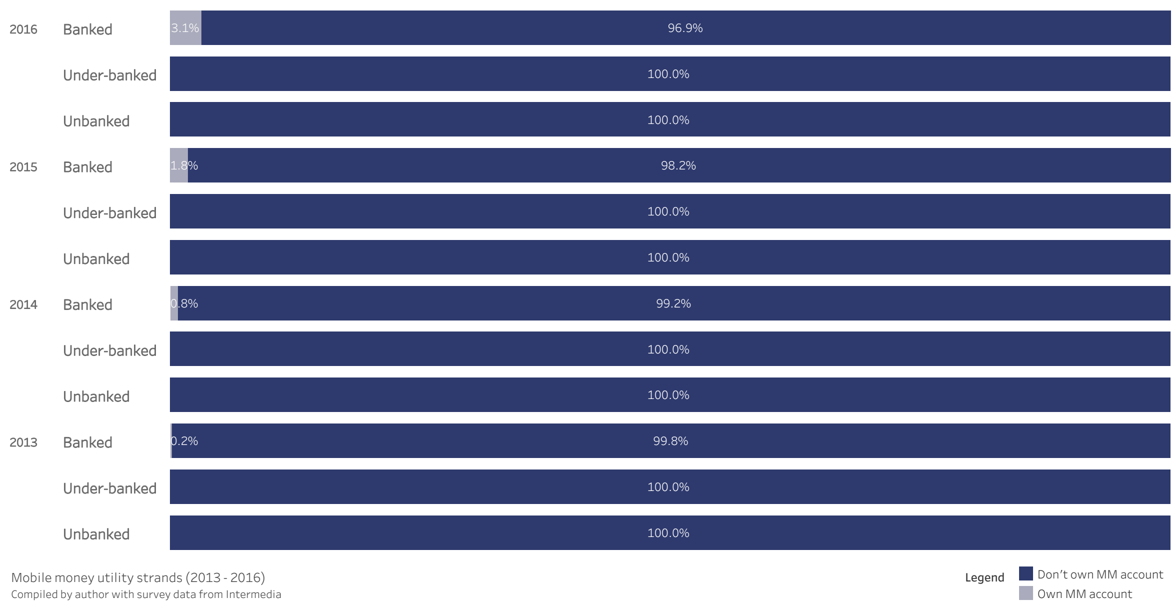
Mobile money utility strands (2008 - 2016)
Compiled by author with survey data from EFInA

Figure 17



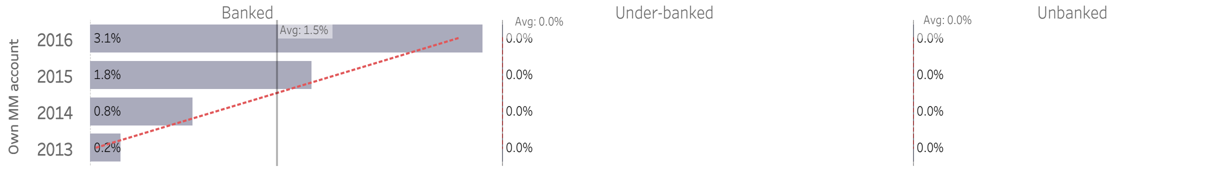
Mobile money utility summary analysis (2008 - 2016)
Compiled by author with survey data from EFInA

Figure 18



Mobile money utility strands (2013 - 2016)
Compiled by author with survey data from Intermedia

Figure 19

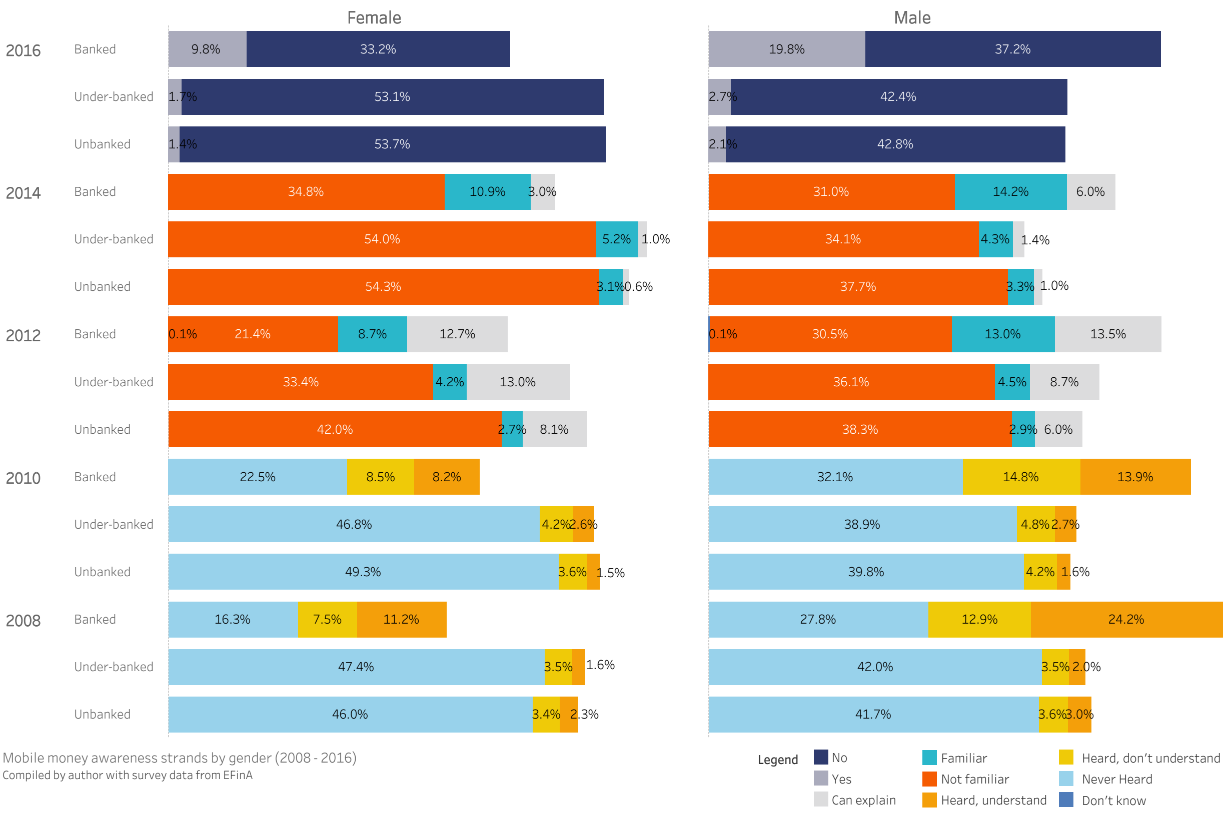


Mobile money utility summary analysis (2013 - 2016)
Compiled by author with survey data from Intermedia

GENDER TRENDS

One of the myths about women and financial services is their cautious and risk-averse nature[3]. This behaviour is exemplified in the mobile money awareness (Figure 20 - Figure 23) and utility (Figure 24 - Figure 27) charts where female knowledge and utility levels are much lower than males.

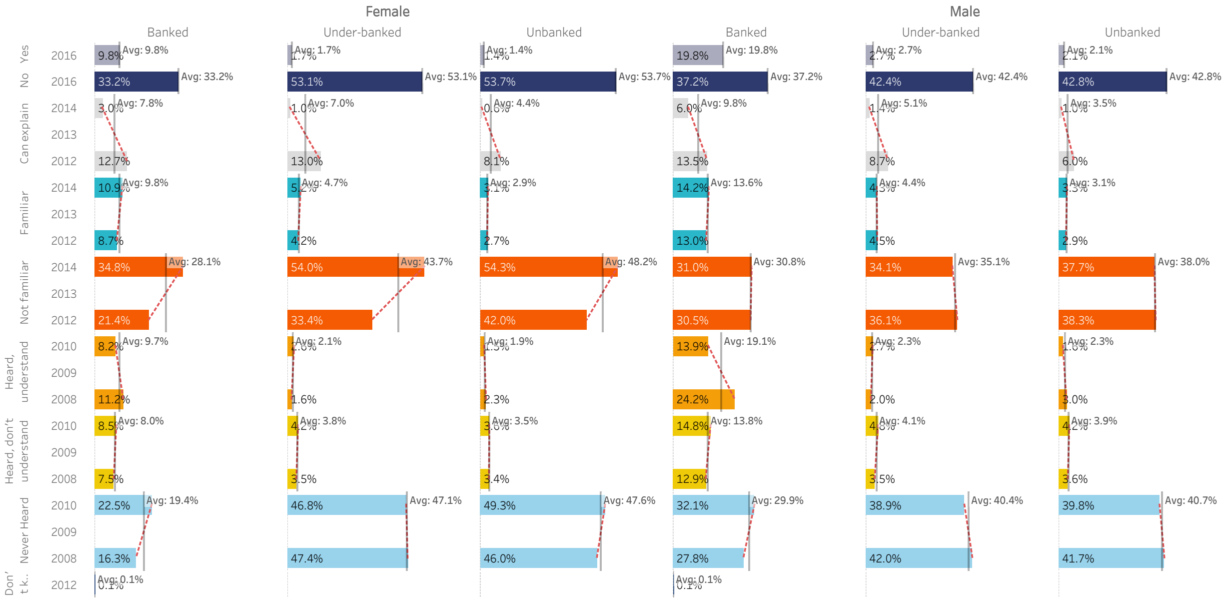
Figure 20



Mobile money awareness strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA

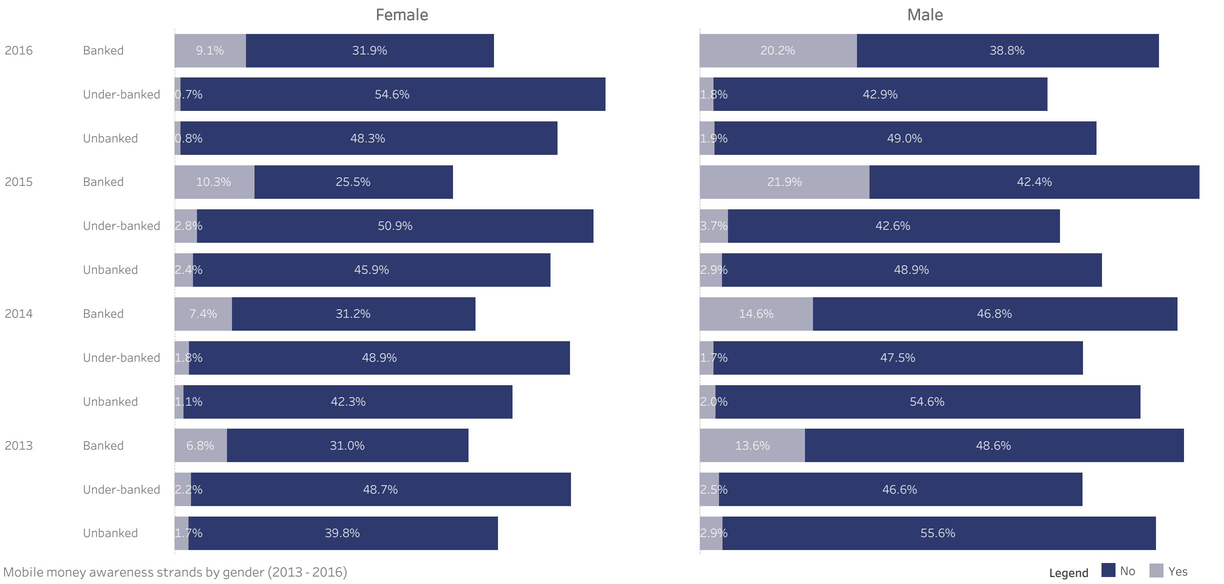
3 Pitcaithly, L.-A., Biallas, M., Japhta, R., & Murthy, P. (2016). Research and Literature Review of Challenges to Women Accessing Digital Financial Services. ifc.org. Washington, D.C.

Figure 21



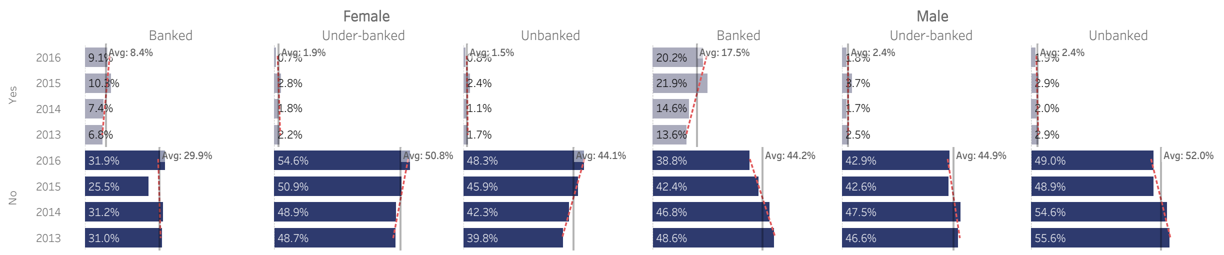
Mobile money awareness strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 22



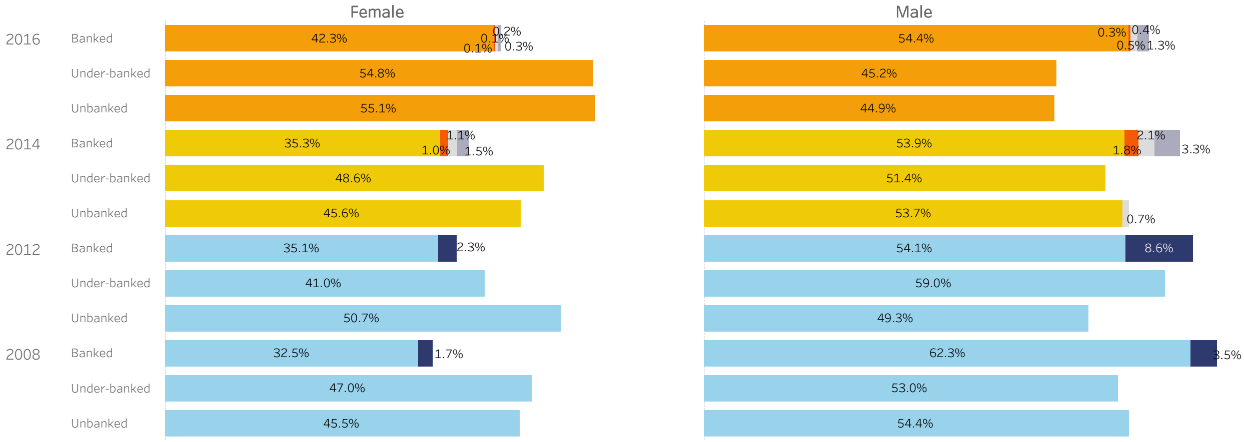
Mobile money awareness strands by gender (2013 - 2016)
Compiled by author with survey data from Intermedia

Figure 23



Mobile money awareness summary analysis by gender (2013 - 2016)
Compiled by author with survey data from Intermedia

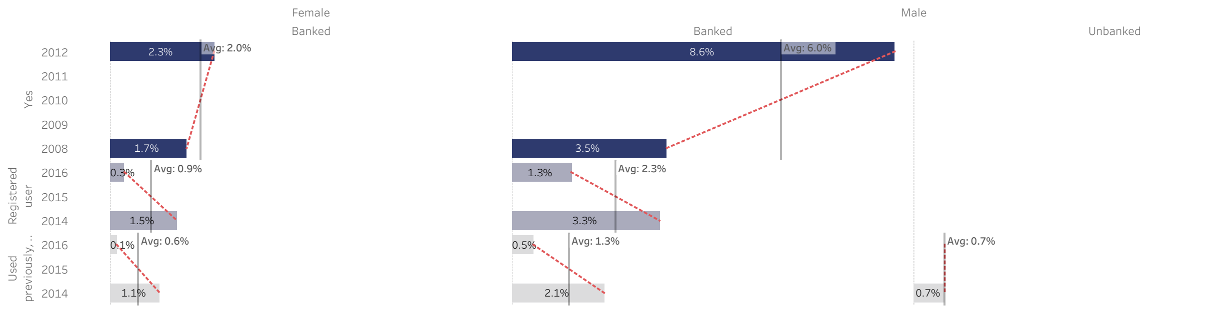
Figure 24



Mobile money utility strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA

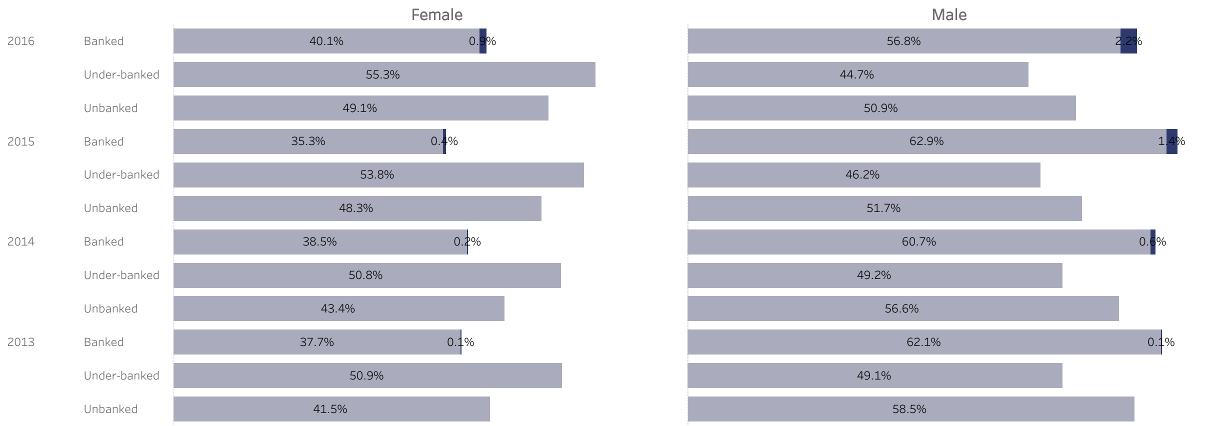
Legend
Yes
Registered user
Registered, never used
Used previously, discontinued
Unregistered user
Never registered & never used
Never used
No

Figure 25



Mobile money utility summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA

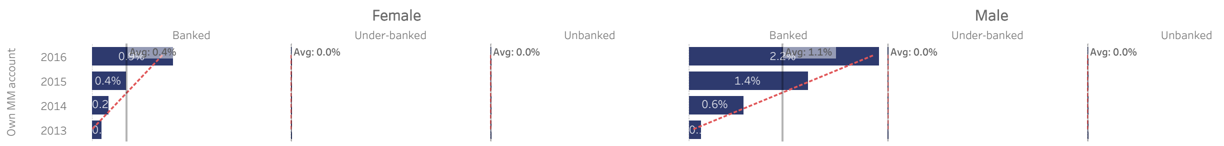
Figure 26



Mobile money utility strands by gender (2013 - 2016)
Compiled by author with survey data from Intermedia

Legend
Own MM account
Don't own MM account

Figure 27



Mobile money utility summary analysis by gender (2013 - 2016)
Compiled by author with survey data from Intermedia

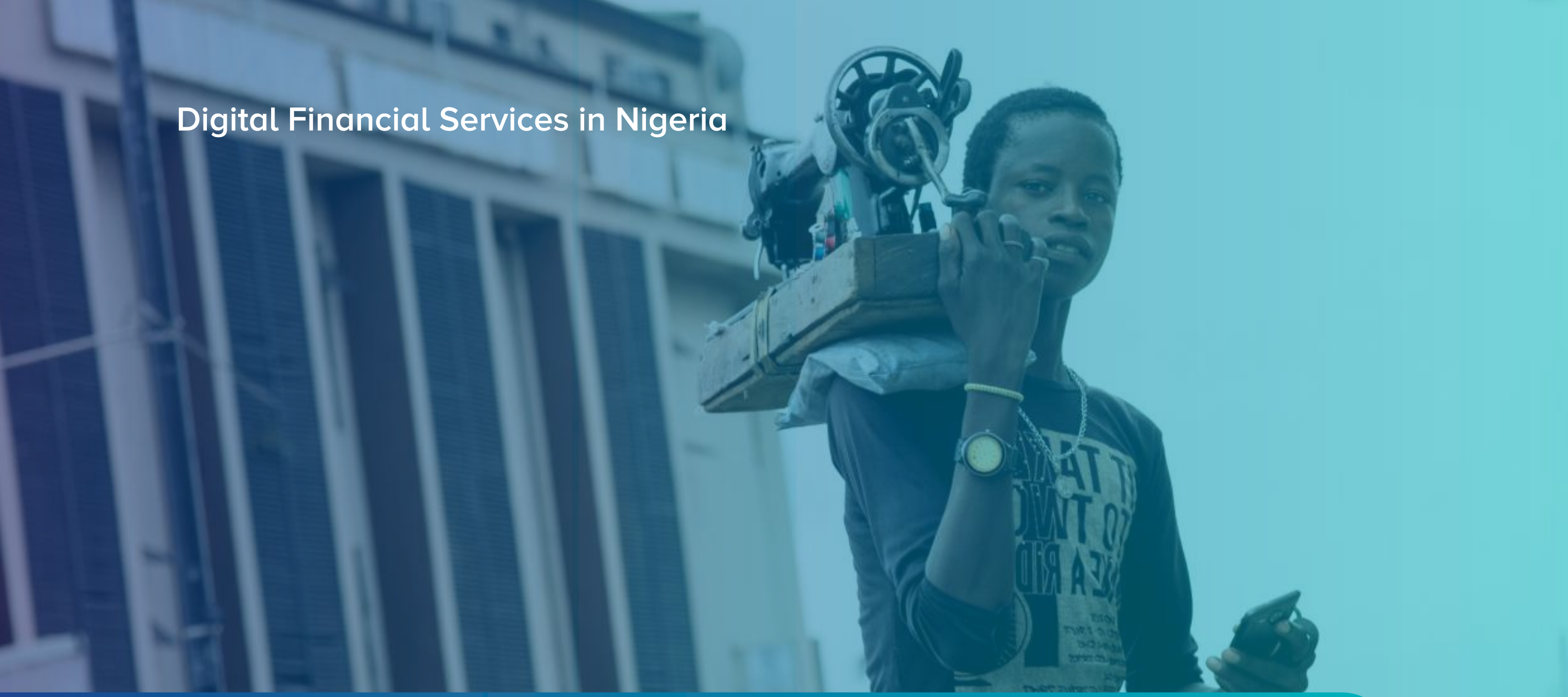
STATE OF THE MARKET REPORT

PART 2

CONSUMER INSIGHTS

National Profiles

Gender Profiles



NATIONAL PROFILES

The 2016 financial inclusion aggregates of 10.6 percent and 48.4 percent for the under-banked and unbanked respectively are explained using relevant indicators from the community, household, and individual domains.

The charts and illustrations in subsequent sections present collective insights of the under-banked and unbanked by geographic location, demographic and socio-economic attributes, assets and capabilities.

Community Perspective

At the community-level, the data substantiate current topical national issues, namely the urban-rural divide and the [under]development of the northern region.

With a largely rural population, financial inclusion strategies should align with rural economic activity - agriculture.

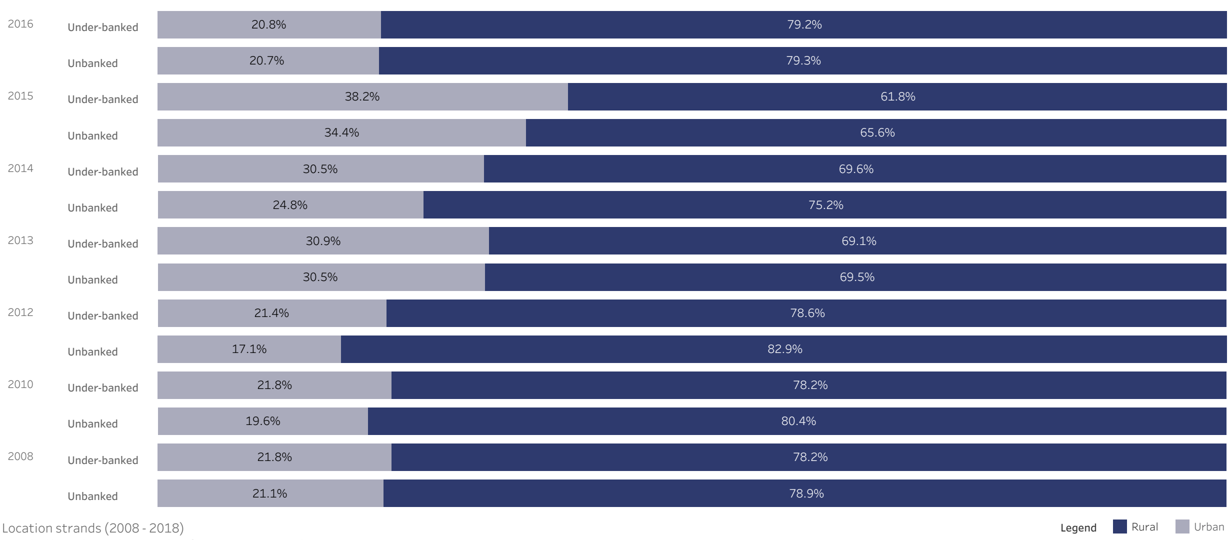
LOCATION

According to the National Bureau of Statistics (NBS), about 60 percent of Nigerians are rural dwellers. While the datasets analysed report higher and significant financial exclusion rates (approximately 3 of 4 adult Nigerians), the patterns since 2008 suggest increasing urban migration.

Despite the CBN's efforts to actively address rural banking, initiatives such as rural banking (that subsequently evolved to microfinance banking) which commenced as far back as 1977 have failed to deepen the financial system in rural locations. While these initiatives have focused on the provision of access points, the data suggests that efforts should focus on the primary source of economic activity - agriculture. Agriculture contributes about 40 percent to Nigeria's gross domestic product (GDP) and is the primary source of business in rural areas, albeit through small-scale and subsistence farming. The lack of commercial-scale agriculture limits economic activity levels and subsequently hinders private capital investments required for infrastructure development. Even though these infrastructure investments, especially transportation and power, are government responsibilities, the estimated infrastructure provision gap exceeds government's funding ability, leaving the rural areas relatively underdeveloped. The demographic trends of higher poverty rates in rural areas are indicative of a positive correlation between poverty and location (Figure 28, Figure 29). Thus, addressing rural development through hard and soft infrastructure developments such as telecommunications, energy, education, and healthcare are central to improving economic activity that eventually will lead to increased rates of financial inclusion through, for example, the provisioning of financial service points (FSPs).

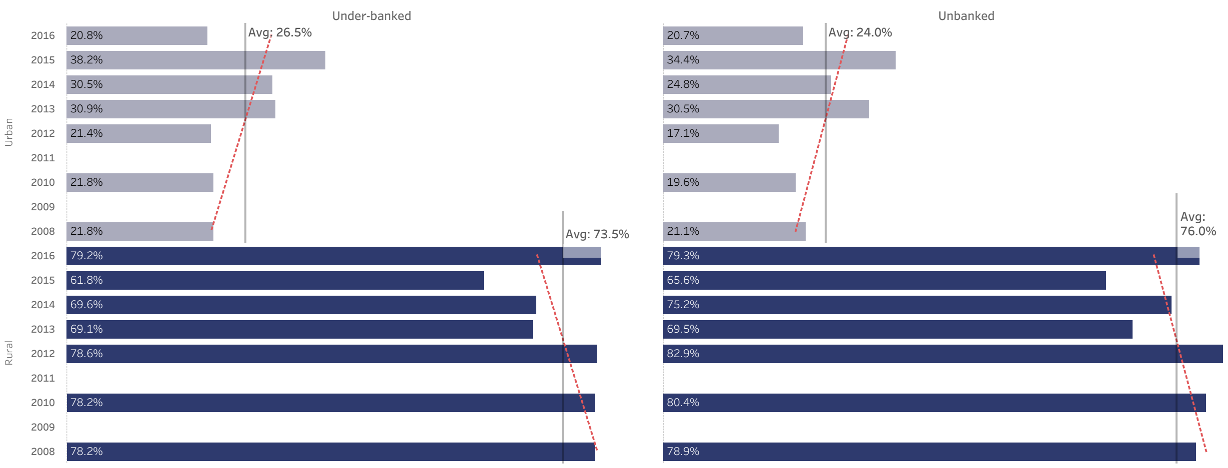
Unlike the financial inclusion successes in Kenya that grew because of person-to-person (P2P) urban-rural flows, anecdotal evidence suggests that cultural differences in Nigeria prevent the replication of this phenomenon because urban migration by Nigerian families involves immediate family members.

Figure 28



Location strands (2008 - 2018)
Complied by author with survey data from EFinA & Intermedia

Figure 29

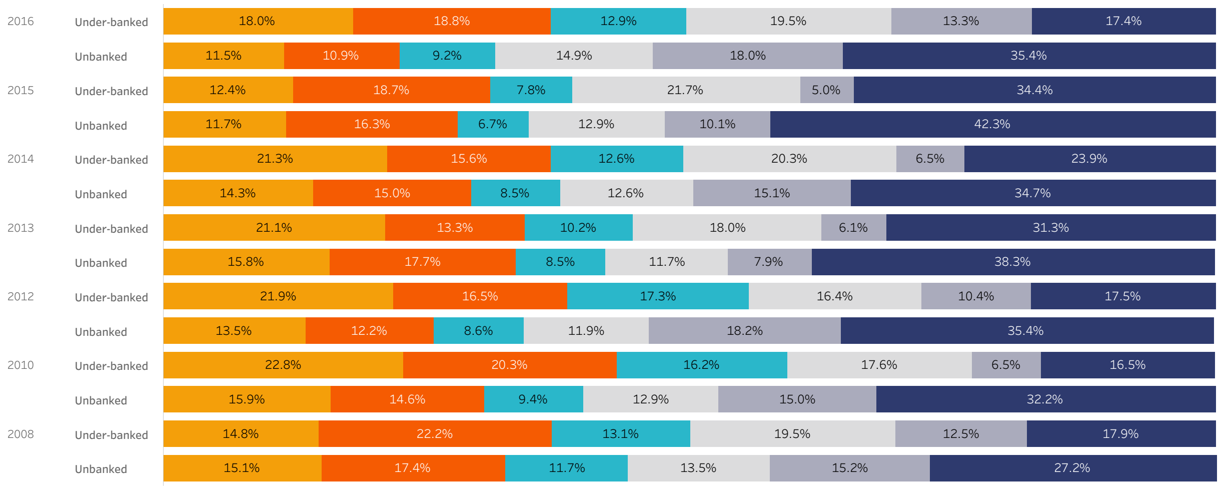


Location summary analysis (2008 - 2018)
Complied by author with survey data from EFinA & Intermedia

REGIONAL DISTRIBUTION

Nigeria comprises six geopolitical zones (GPZs) or regions, with varying rates of financial inclusion. The strands consistently report higher exclusion rates in the densely populated North West region; with moderate increases prevalent in the North Central amidst declining exclusion rates in the North East (Figure 30). The terrorist skirmishes in the North East are a plausible hypothesis to explain these patterns. The slow pace of decreasing financial exclusion in the Southern regions combined with NBS 2016 population estimates[4] and growth rates of about 3.5 percent,[5] illustrate the persistent nature of financial inclusion (Figure 31). In as much as over 54 percent of the country's population reside in the Northern regions and over 25 percent in the North West alone, effective financial inclusion interventions are imperative.

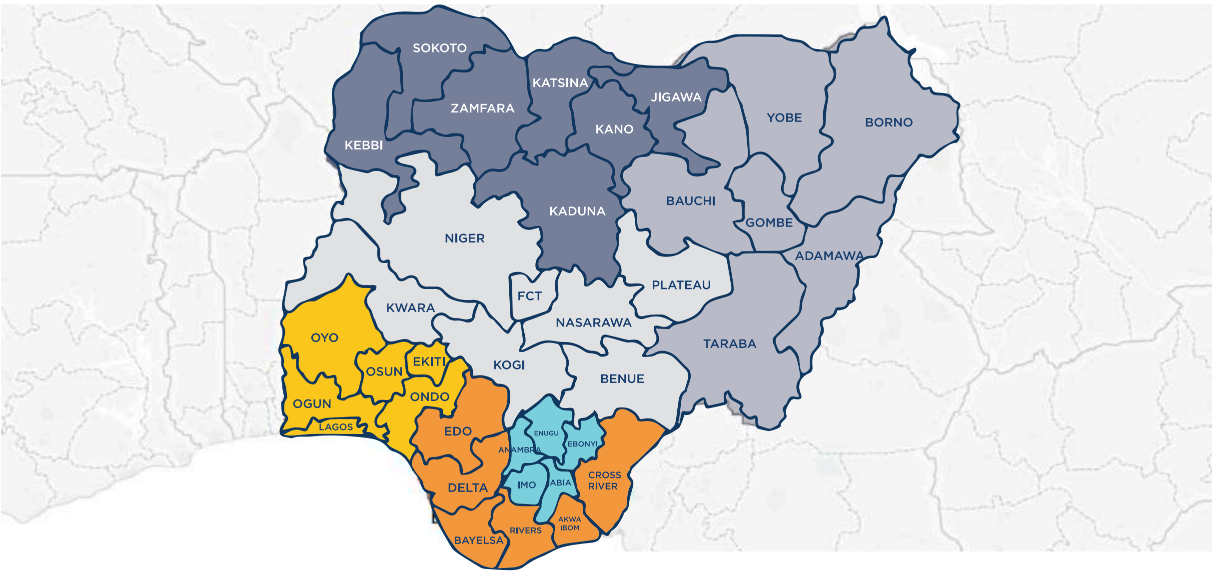
Figure 30



Geo-political zone (GPZ) strands (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

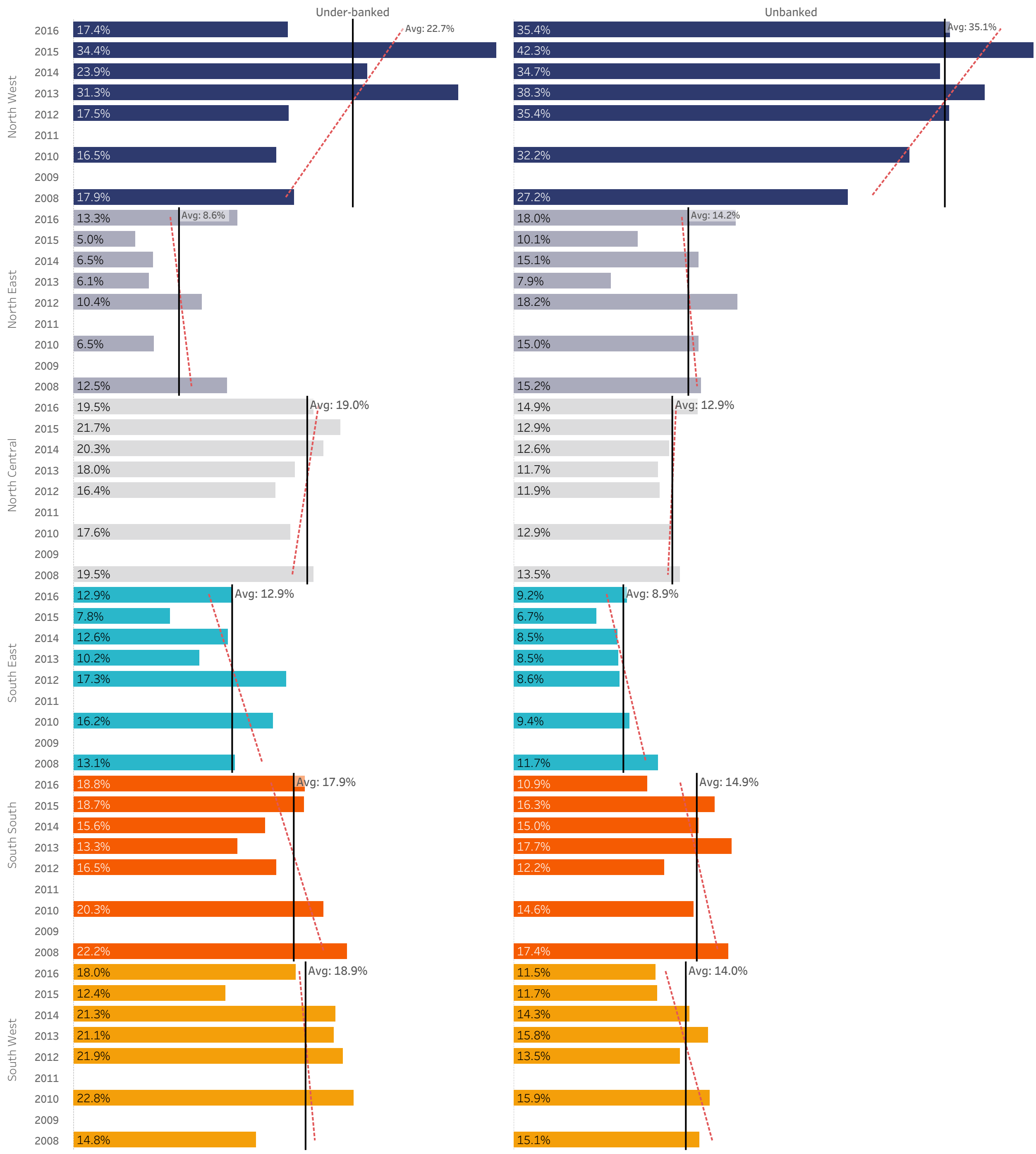
Legend
North West
North Central
South South
South East
South West

Figure 31



4 http://nigeria.opendataforafrica.org/crhsjdg/population-of-nigeria-2016
5 Annual population growth rates are estimated at 1.8 percent.

Figure 32



		Under-banked	Unbanked
North West	2016	17.4%	35.4%
	2015	34.4%	42.3%
	2014	23.9%	34.7%
	2013	31.3%	38.3%
	2012	17.5%	35.4%
	2011		
	2010	16.5%	32.2%
	2009		
	2008	17.9%	27.2%
North East	2016	13.3%	18.0%
	2015	5.0%	10.1%
	2014	6.5%	15.1%
	2013	6.1%	7.9%
	2012	10.4%	18.2%
	2011		
	2010	6.5%	15.0%
	2009		
	2008	12.5%	15.2%
North Central	2016	19.5%	14.9%
	2015	21.7%	12.9%
	2014	20.3%	12.6%
	2013	18.0%	11.7%
	2012	16.4%	11.9%
	2011		
	2010	17.6%	12.9%
	2009		
	2008	19.5%	13.5%
South East	2016	12.9%	9.2%
	2015	7.8%	6.7%
	2014	12.6%	8.5%
	2013	10.2%	8.5%
	2012	17.3%	8.6%
	2011		
	2010	16.2%	9.4%
	2009		
	2008	13.1%	11.7%
South South	2016	18.8%	10.9%
	2015	18.7%	16.3%
	2014	15.6%	15.0%
	2013	13.3%	17.7%
	2012	16.5%	12.2%
	2011		
	2010	20.3%	14.6%
	2009		
	2008	22.2%	17.4%
South West	2016	18.0%	11.5%
	2015	12.4%	11.7%
	2014	21.3%	14.3%
	2013	21.1%	15.8%
	2012	21.9%	13.5%
	2011		
	2010	22.8%	15.9%
	2009		
	2008	14.8%	15.1%

Geo-political zone (GPZ) summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

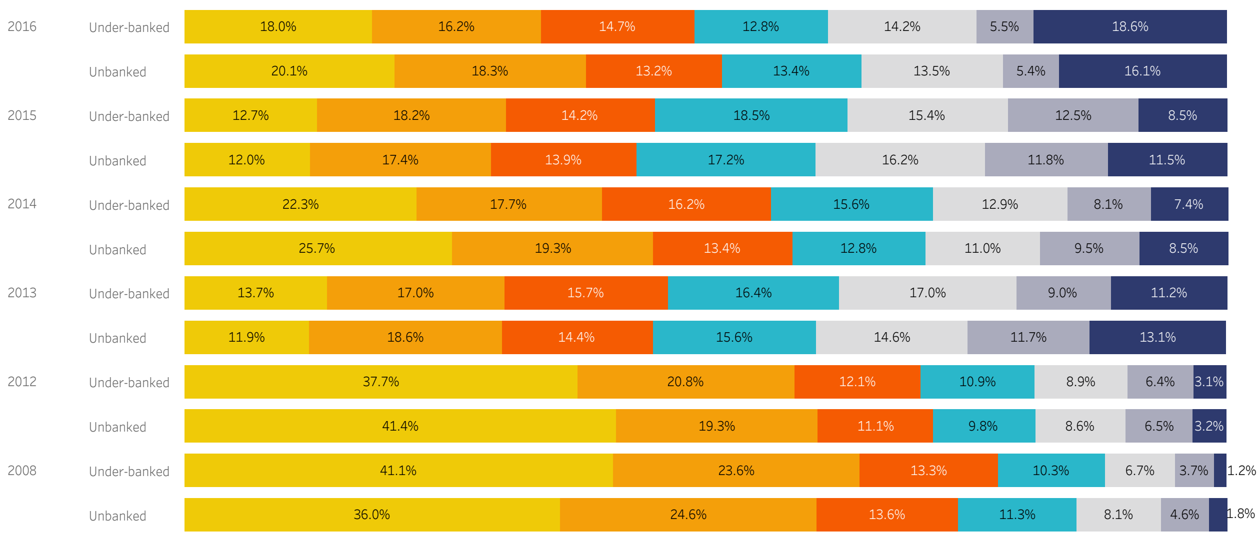
Household Perspective

> Households of the financially excluded are more substantial (4 or more persons) and have a combined income below the World Bank poverty threshold of $1.90.

SIZE

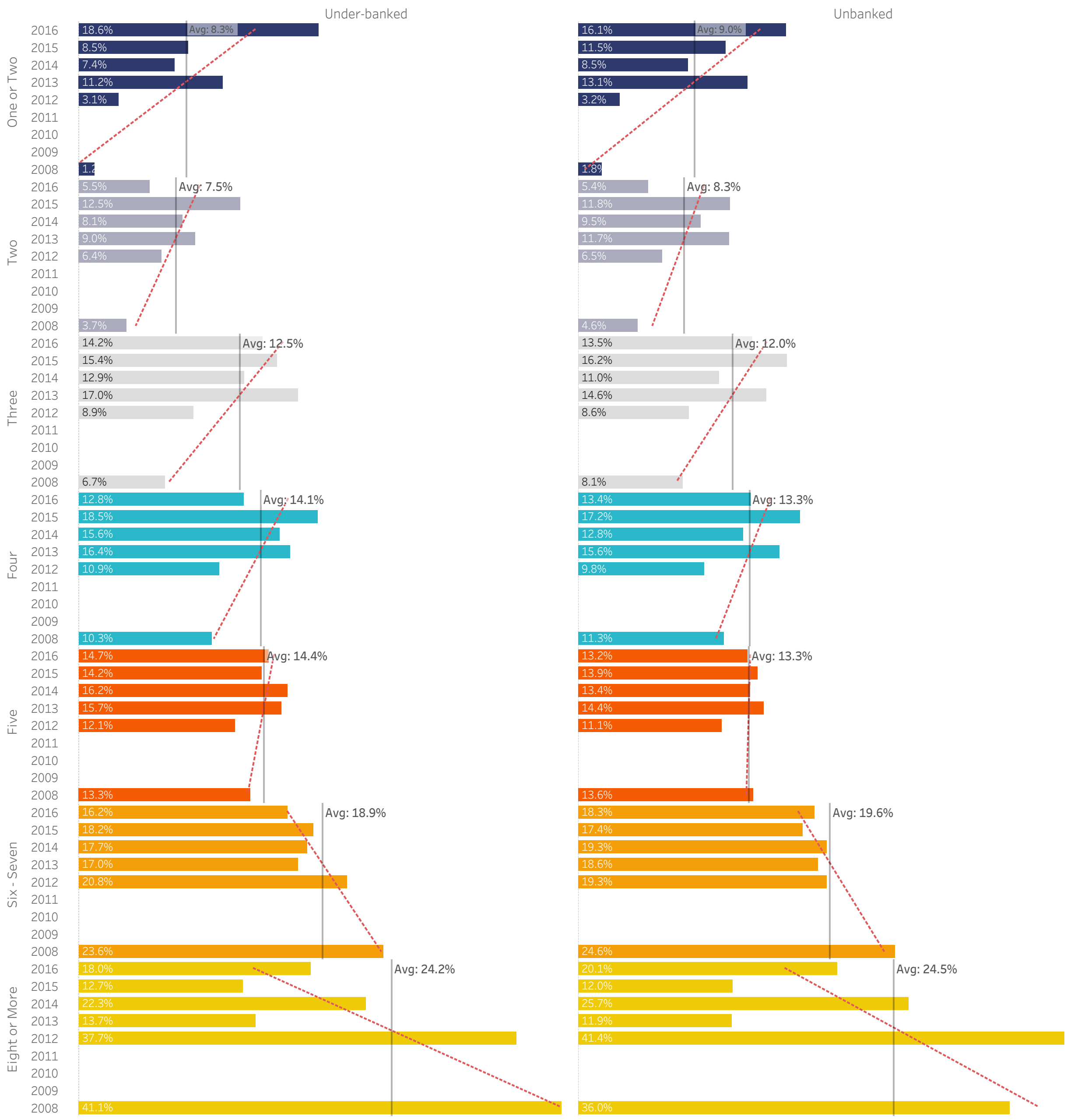
Hofstede's dimensions of National culture categories Nigeria as collectivist as opposed to individualistic. Even though larger households have declined progressively since 2008 (Figure 33), the data trends still support a collectivist national culture. Smaller homes with fewer than five members are on the rise; with the most significant growth found within the one or two household size band (Figure 34).

Figure 33



Household size strands (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 34

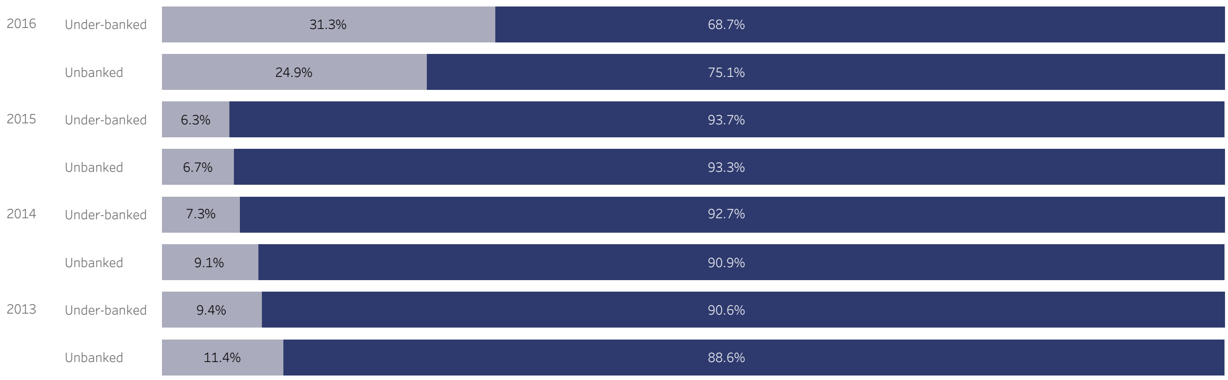


Household size summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

POVERTY THRESHOLD

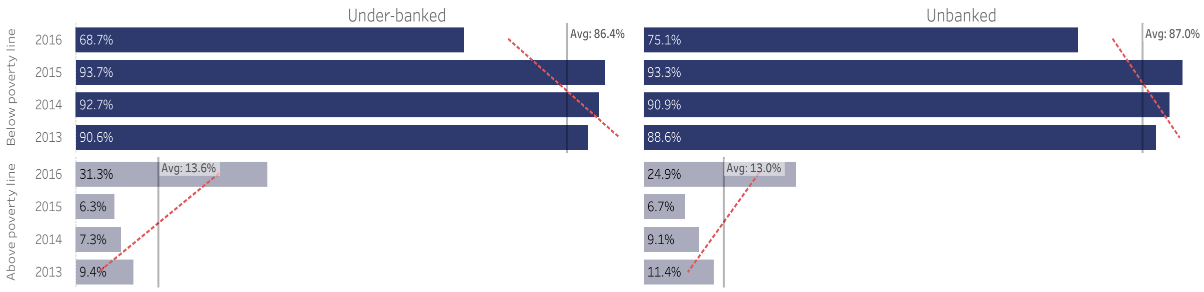
The significant rise in wealth status in 2016 is somewhat inconsistent with typical data patterns. Notwithstanding, the household poverty threshold of $1.90 represents the international poverty line established by the World Bank. The poverty threshold strands are somewhat consistent with the state of rural dwellers, with higher exclusion rates among poorer households (Figure 35). The declining poverty rates are indicative of either increased economic activity in rural locations or urban migration trends (Figure 36).

Figure 35



Household income strands (2008 - 2016)
Compiled by author with survey data from Intermedia

Figure 36



Household income summary analysis (2008 - 2016)
Compiled by author with survey data from Intermedia

Individual Perspective

DEMOGRAPHIC CHARACTERISTICS

> In the quest for financial inclusion, the youth (single or married) and widowed, are most vulnerable.

GENDER

The midyear population chart highlights reasonably even distribution patterns (Figure 35). Despite a male-female ratio of 1.040, female exclusion rates are marginally higher. While female exclusion rates increased between 2015 and 2016 but declined among males in the same period (Figure 37), the trend illustrates increasing exclusion levels among under-banked females and unbanked males (Figure 38).

Figure 37

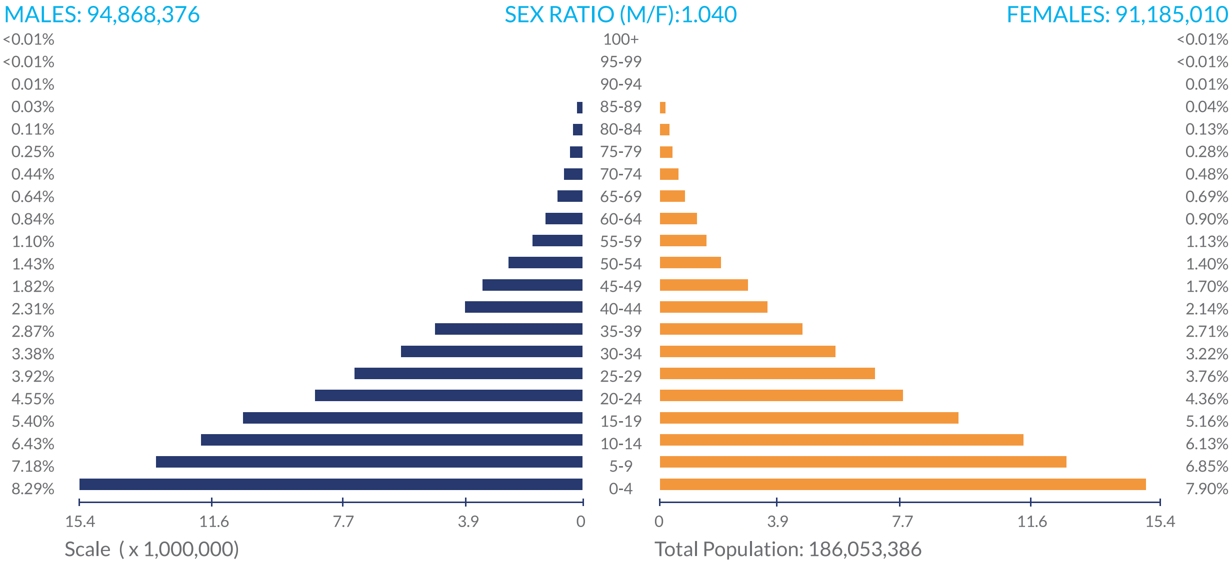
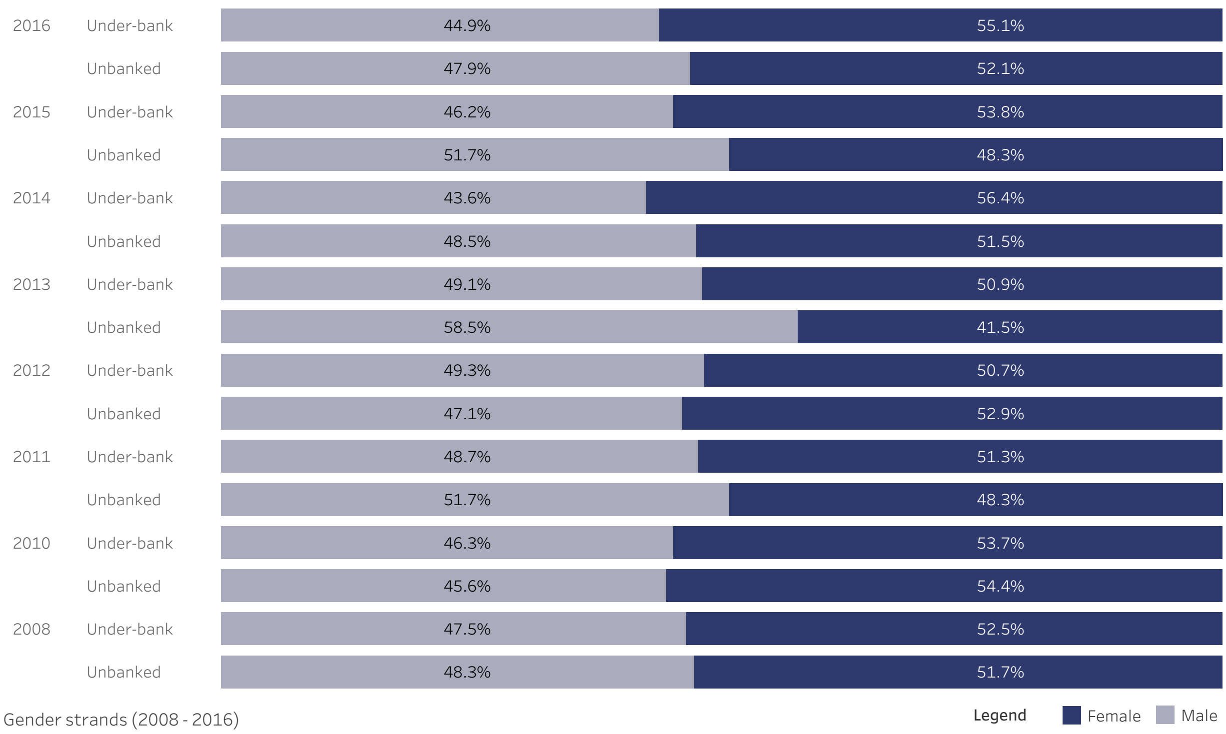
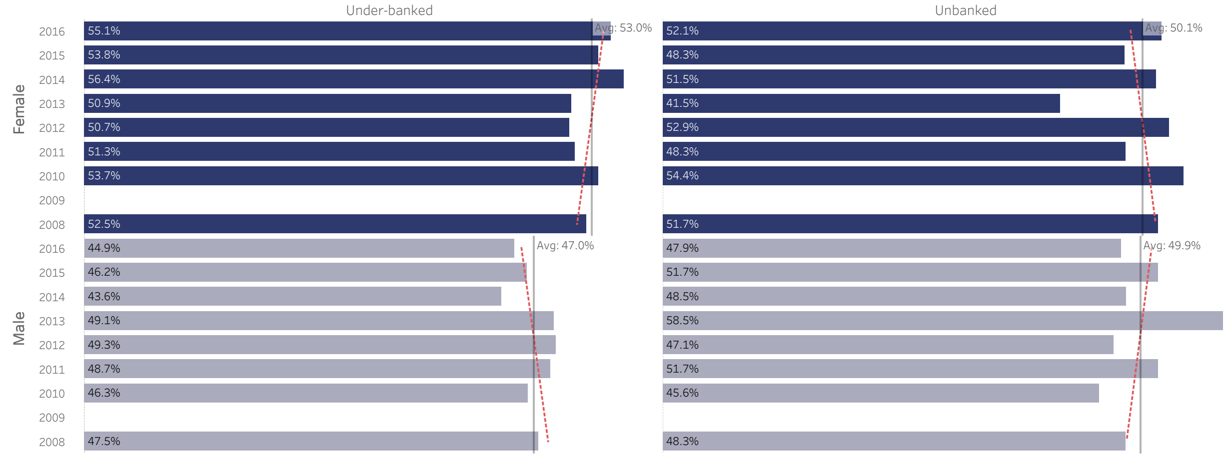


Figure 38



Gender strands (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

Figure 39

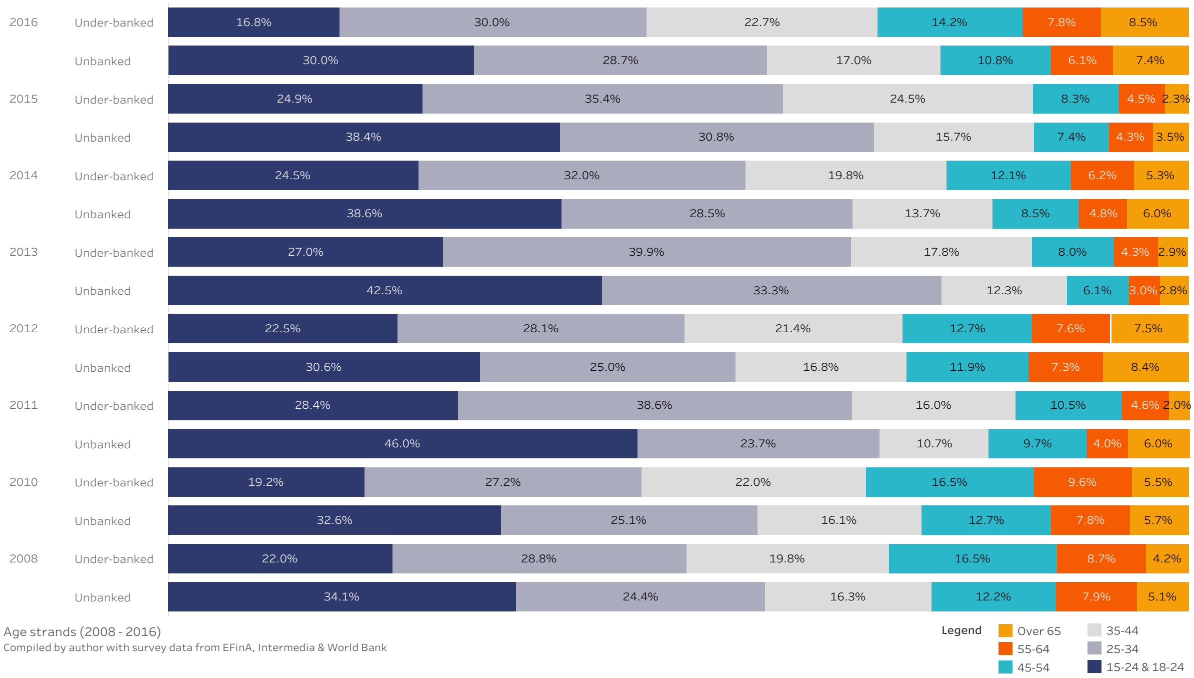


Gender summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

AGE

By age, the exclusion strands consistently highlight significantly higher exclusion rates among the youth demographic between the ages of 15 and 34, which account for approximately 17.25 percent and 16.5 of the male and female population respectively (Figure 40). Among the under-banked, exclusion rates are on the decline in the 45 - 64 age bracket (late career) and youth from 15 - 24 (student/early career) while increasing among jobbers between 25 and 44 (early and mid-career) and retirees over 65. The increasingly high rates of exclusion among the youth population, mainly between 15 and 34 are analogous to unemployment and underemployment reports from the NBS[6]. Among unbanked Nigerians, trends are somewhat consistent except increasing levels of financial exclusion among early career jobbers in the 25 to 34 age group (Figure 41).

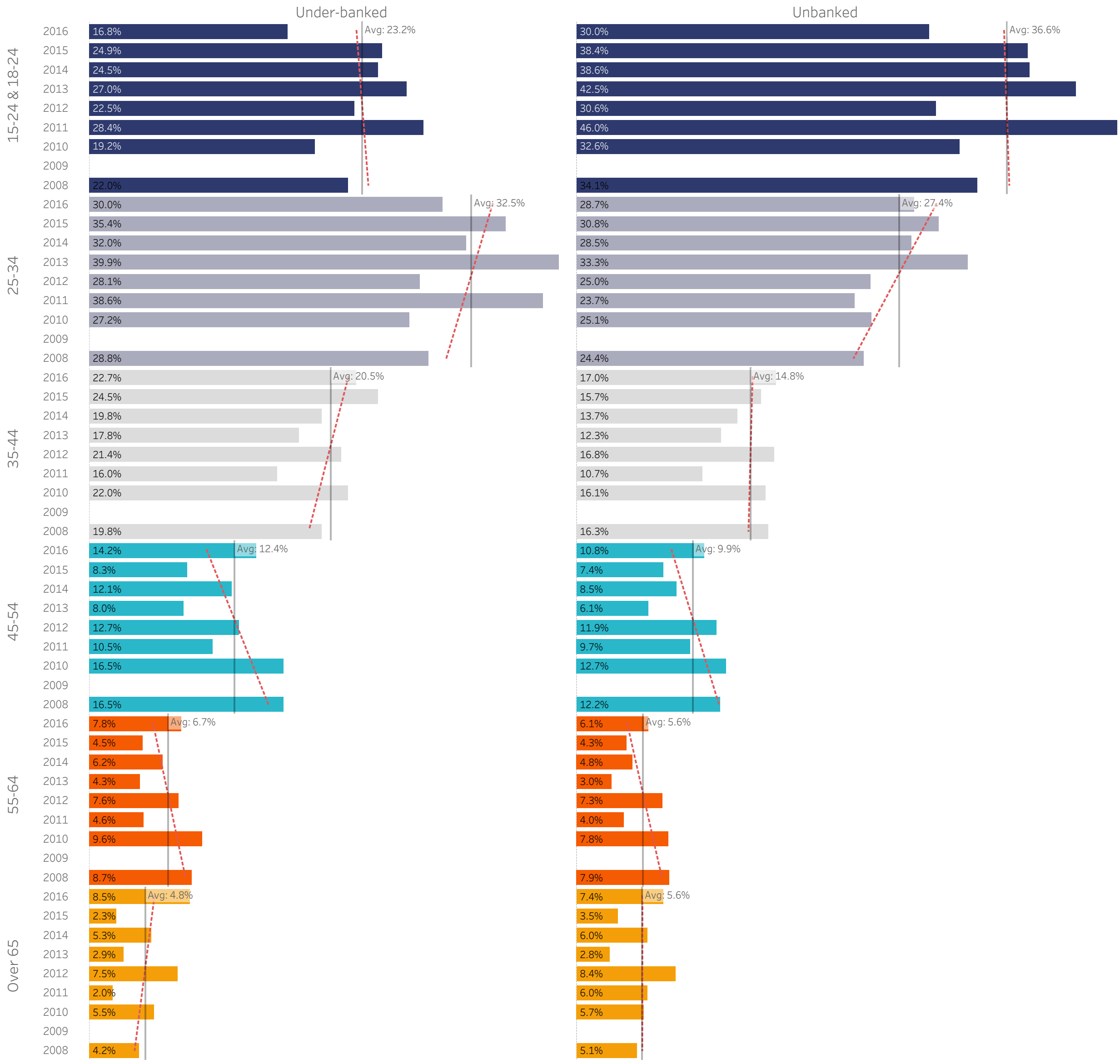
Figure 40



Age strands (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

6 NBS Unemployment and under-employment report (Q4, 2016)

Figure 41

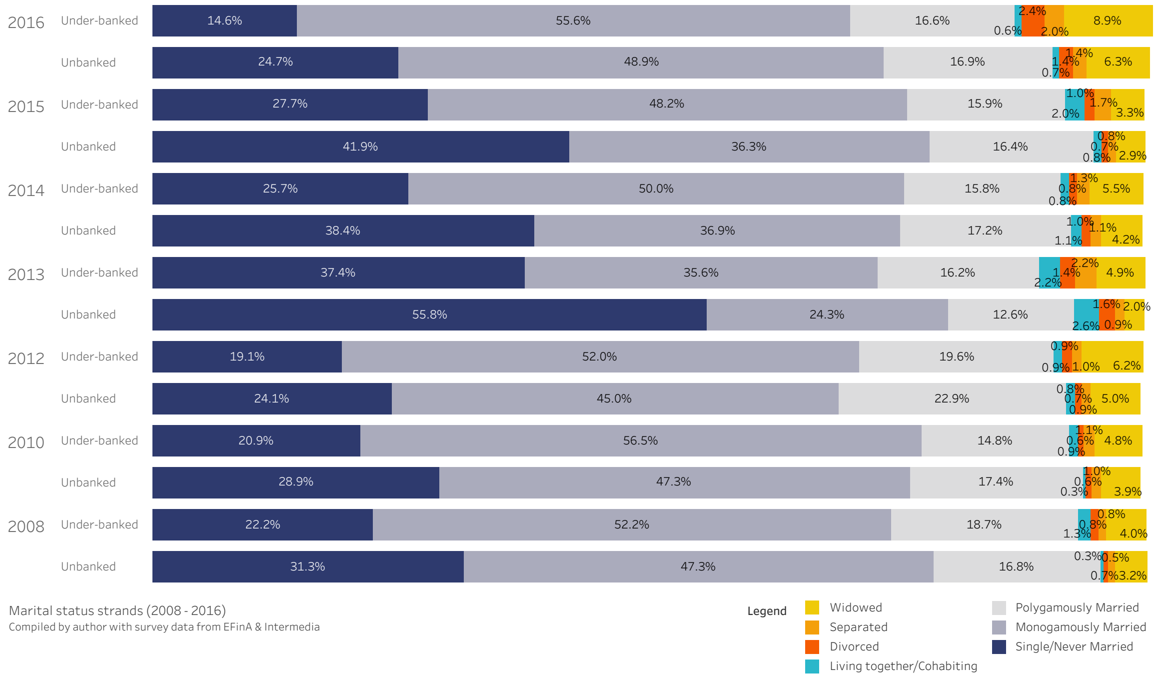


Age summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

MARITAL STATUS

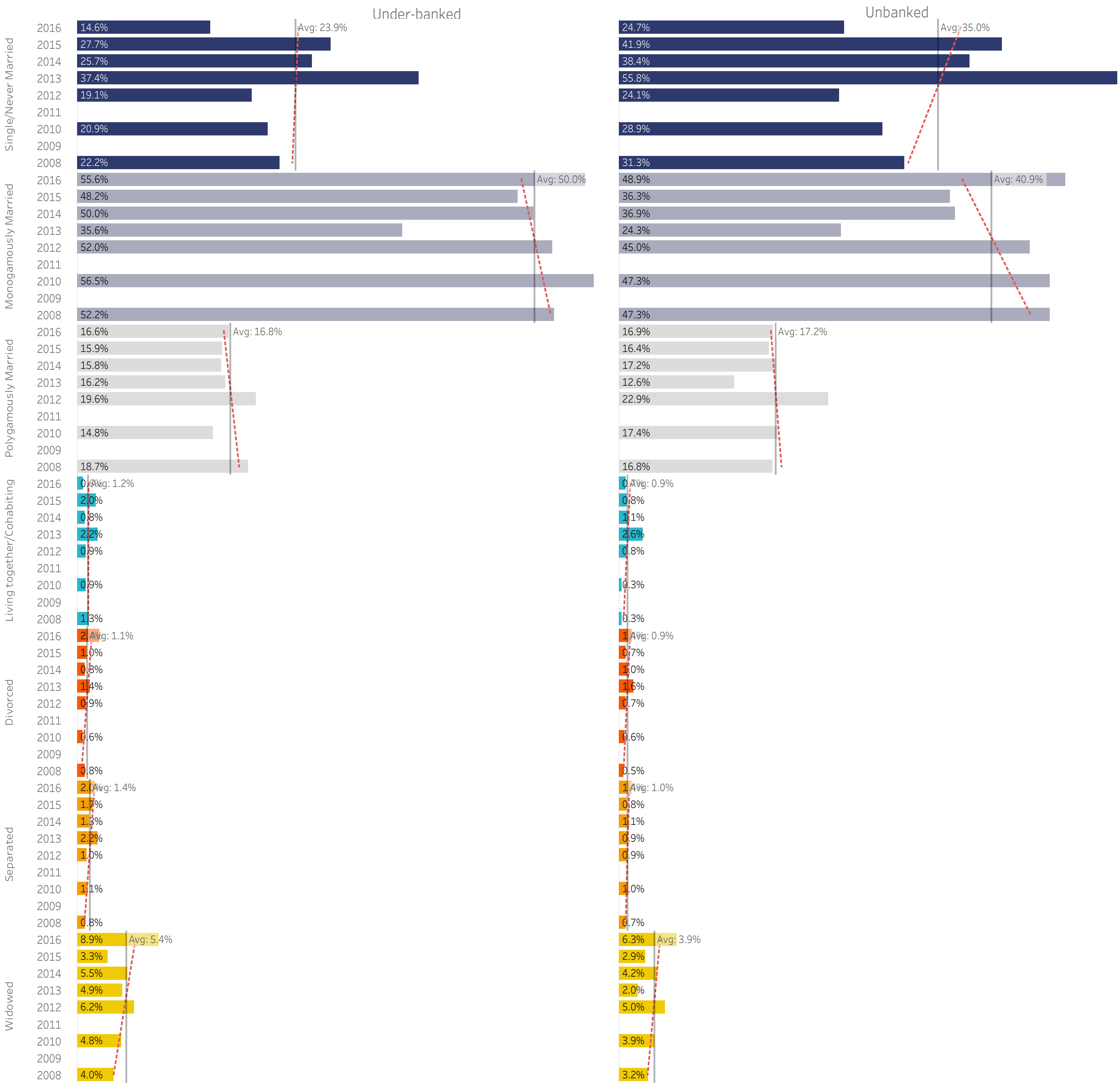
Monogamous marital relationships are most prevalent with the highest reporting statistics (Figure 42). Another vulnerable group with increasing exclusion levels are widows. Also, in the unbanked group, though trend patterns since 2008 indicate declining levels of exclusion, the increasing rates of excluded monogamously married individuals between 2015 and 2016 cannot be ignored (Figure 43).

Figure 42



Marital status strands (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 43



Marital status summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

TOMORROW
MidWeek
Fortune
Bonanza
National
Lucky
28-56-89-19-7
People
67-65-9-87-8
71-78-44-28-75

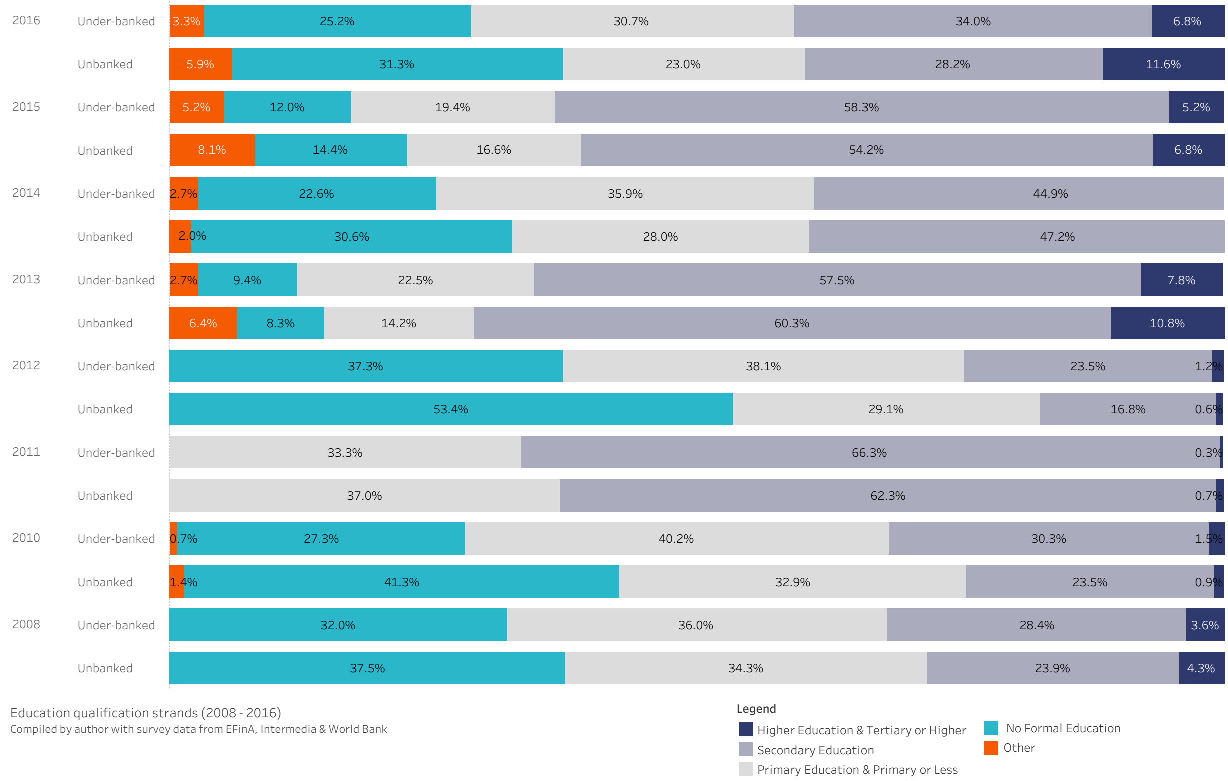
SOCIO-ECONOMIC CHARACTERISTICS

> The vulnerability gap of the financially excluded widens as a result of education, employment status and income levels.

EDUCATION

The view of exclusion by education highlights the dominant educational qualification - secondary (high) school (Figure 44). The increasing exclusion rates amongst tertiary education holders are not only worrisome but may be related to employment trends and patterns (Figure 45).

Figure 44



Education qualification strands (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

Figure 45

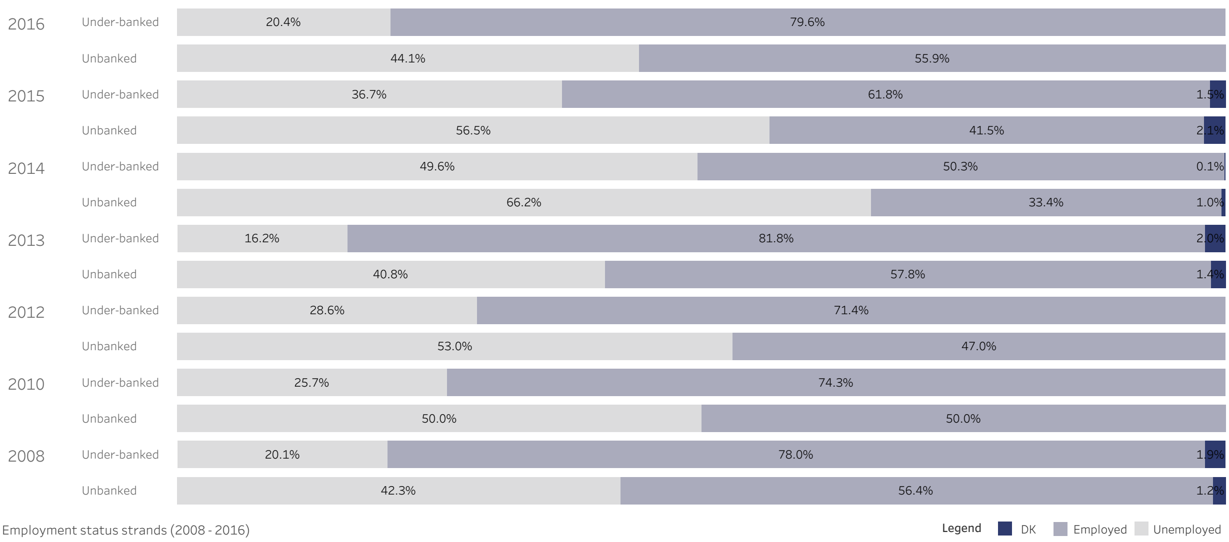
Education qualification summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

EMPLOYMENT

The employment and income strands explain the relationship between financial inclusion and economic status. As expected, financial exclusion levels are higher among the unemployed and unbanked (Figure 46). Furthermore, financial exclusion levels of the employed (under-banked and unbanked) suggest the existence of additional (non-economic) factors impacting financial inclusion (Figure 47).

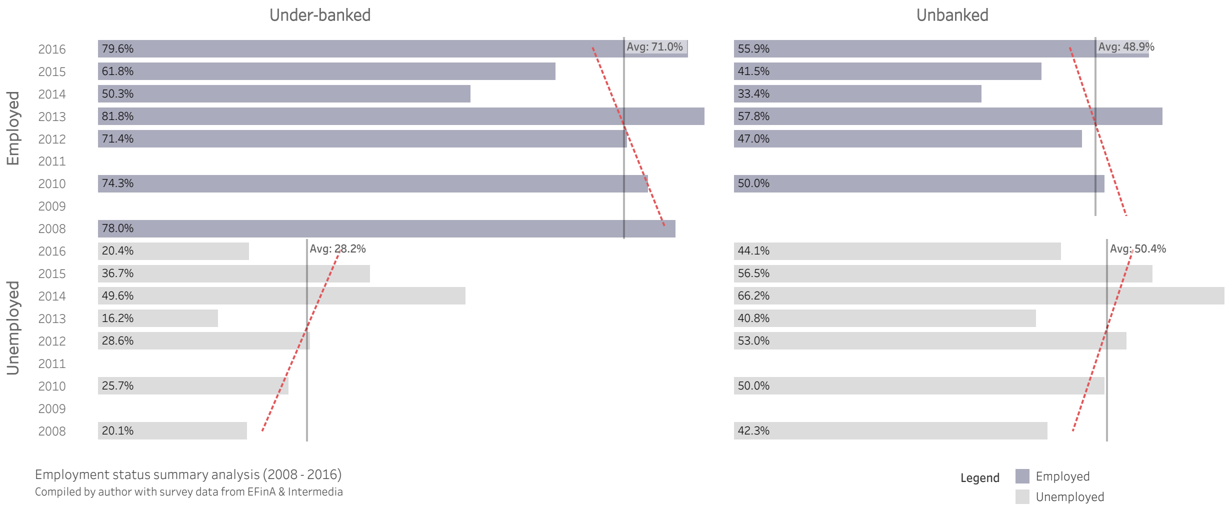
The decomposition of income source by employment status identifies the constitution of the labour force as well as crucial industry groups/sectors - MSMEs, agriculture and informal/unskilled work (Figure 48, Figure 49).

Figure 46



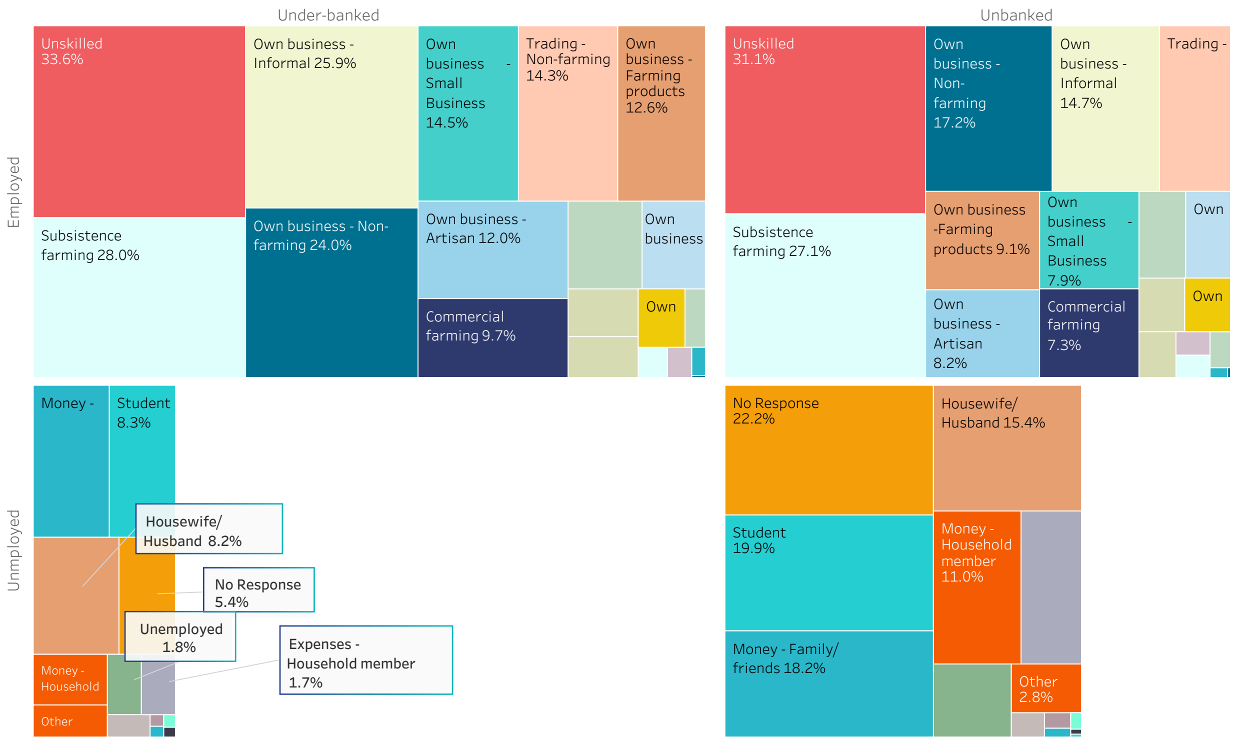
Employment status strands (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 47



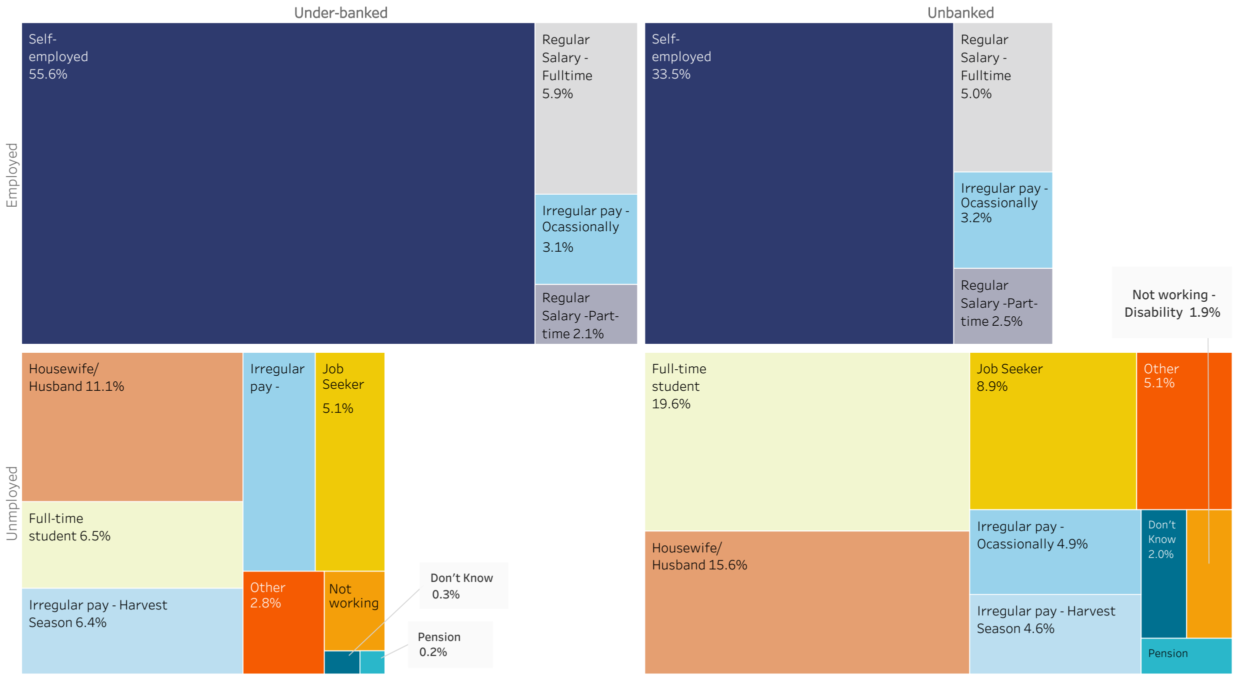
Employment status summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 48



Income sources by employment status treemap (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 49



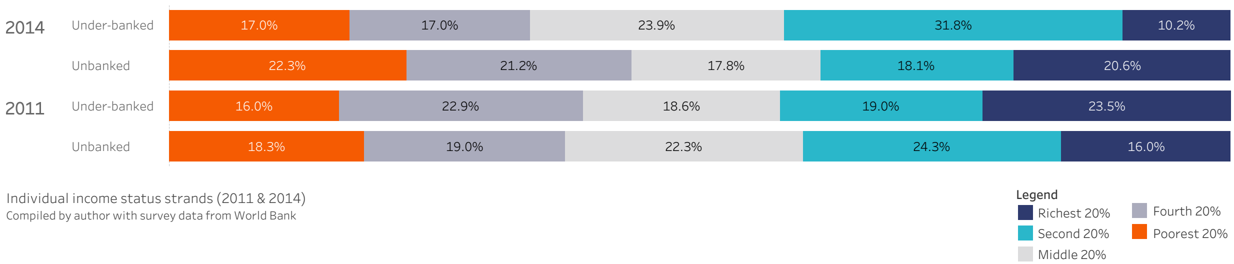
Income sources by employment status treemap (2013 - 2016)
Compiled by author with survey data from Intermedia

INCOME

The datasets of income analysed vary by source. The World Bank datasets report income distribution by quintile based on the poverty threshold ($1.90) and EFinA, by actual monthly earnings. In the under-banked category, the income distribution increases of the poorest 20 percent and reductions among the wealthiest 20 percent in the under-banked group, provides some evidence towards closure of the income distribution gap, a missing trend among the unbanked. Among the unbanked, financial exclusion rates are on the rise in the lower income categories and the wealthiest income group (Figure 50, Figure 51).

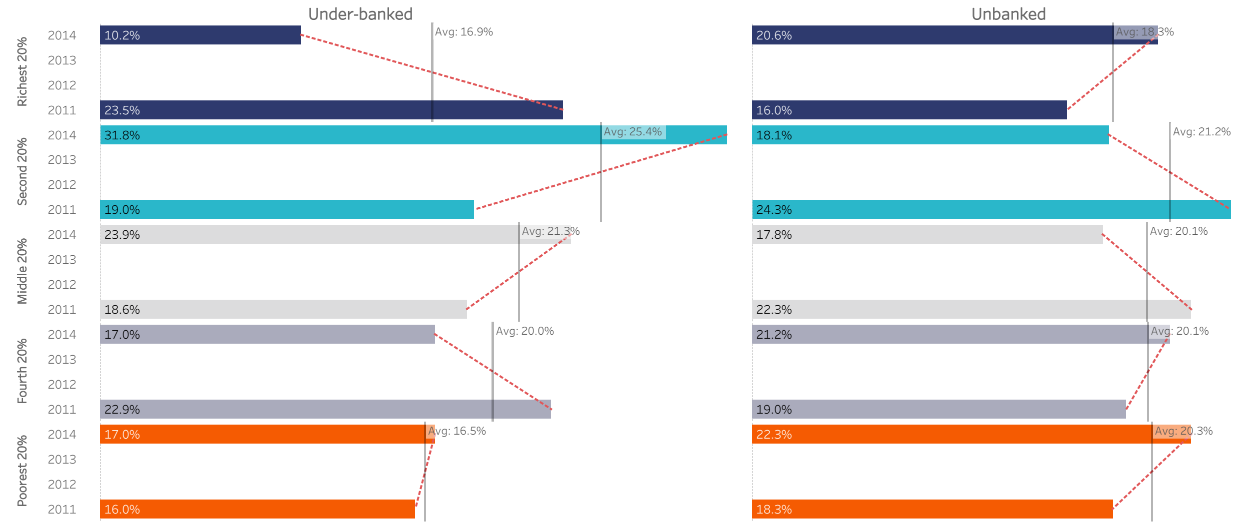
With more than 50 percent of respondents earning up to N13,000 (thirteen thousand naira) monthly, the earnings strand is consistent with the national minimum wage standard of N18,000 (eighteen thousand naira) (Figure 52). Except for respondents with uncertain (irregular) income, financial exclusion rates are reducing amongst low wage earners and on the increase with higher wage earners (Figure 53).

Figure 50



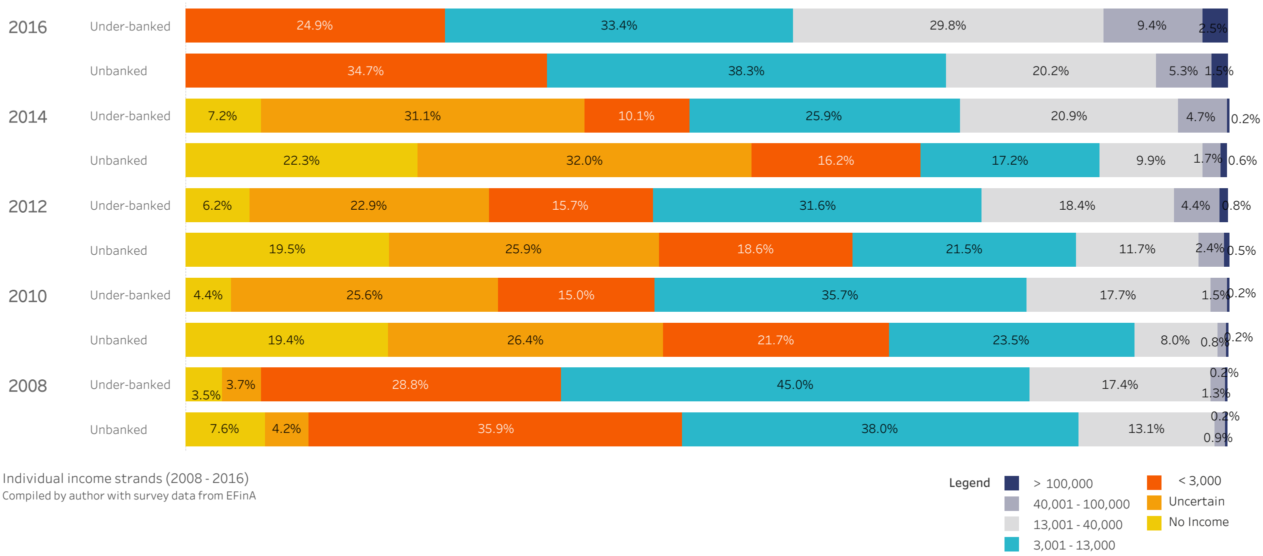
Individual income status strands (2011 & 2014)
Compiled by author with survey data from World Bank

Figure 51



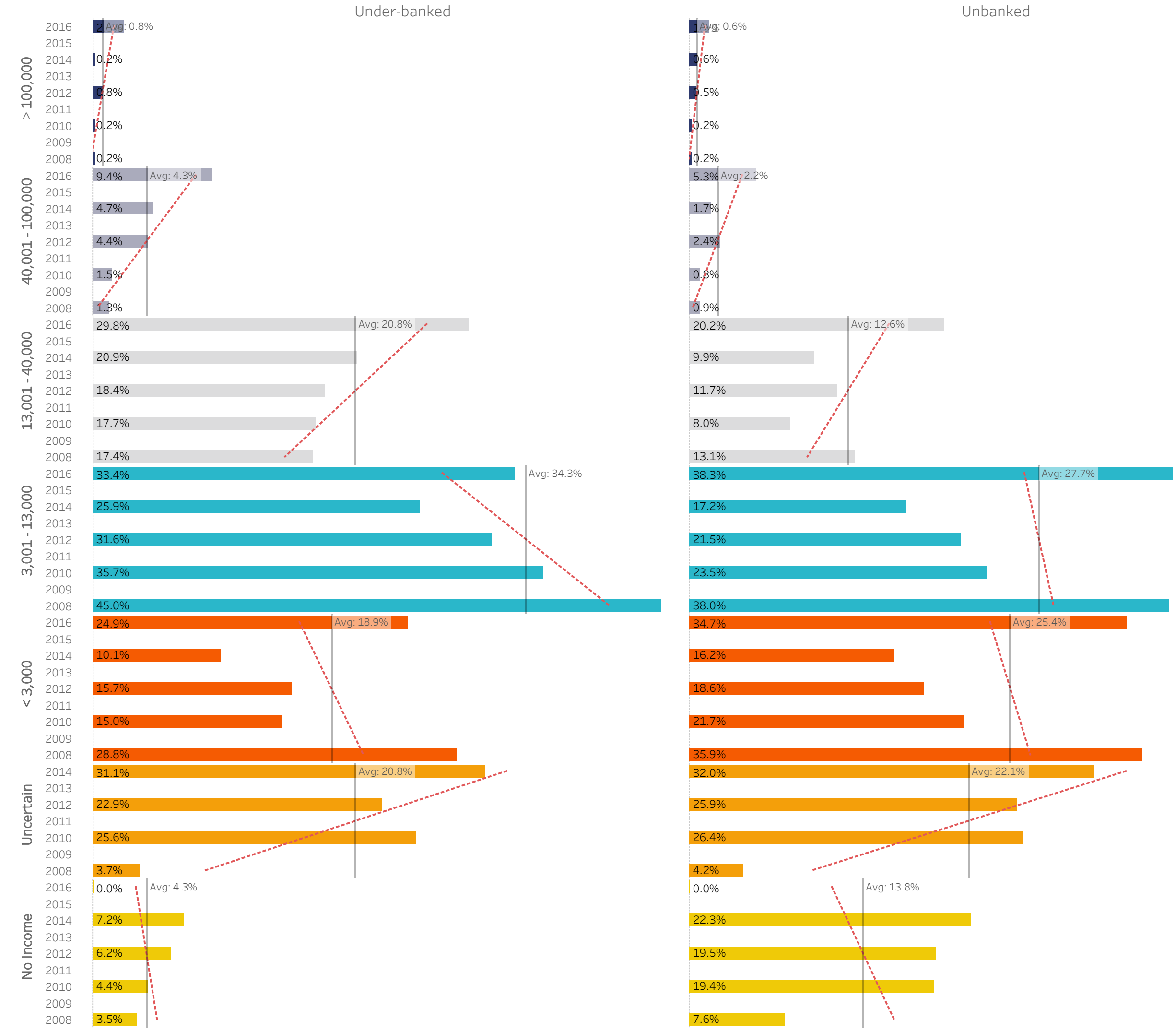
Individual income status summary analysis (2011 & 2014)
Compiled by author with survey data from World Bank

Figure 52



Individual income strands (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 53



Individual income summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA

Assets and Capabilities

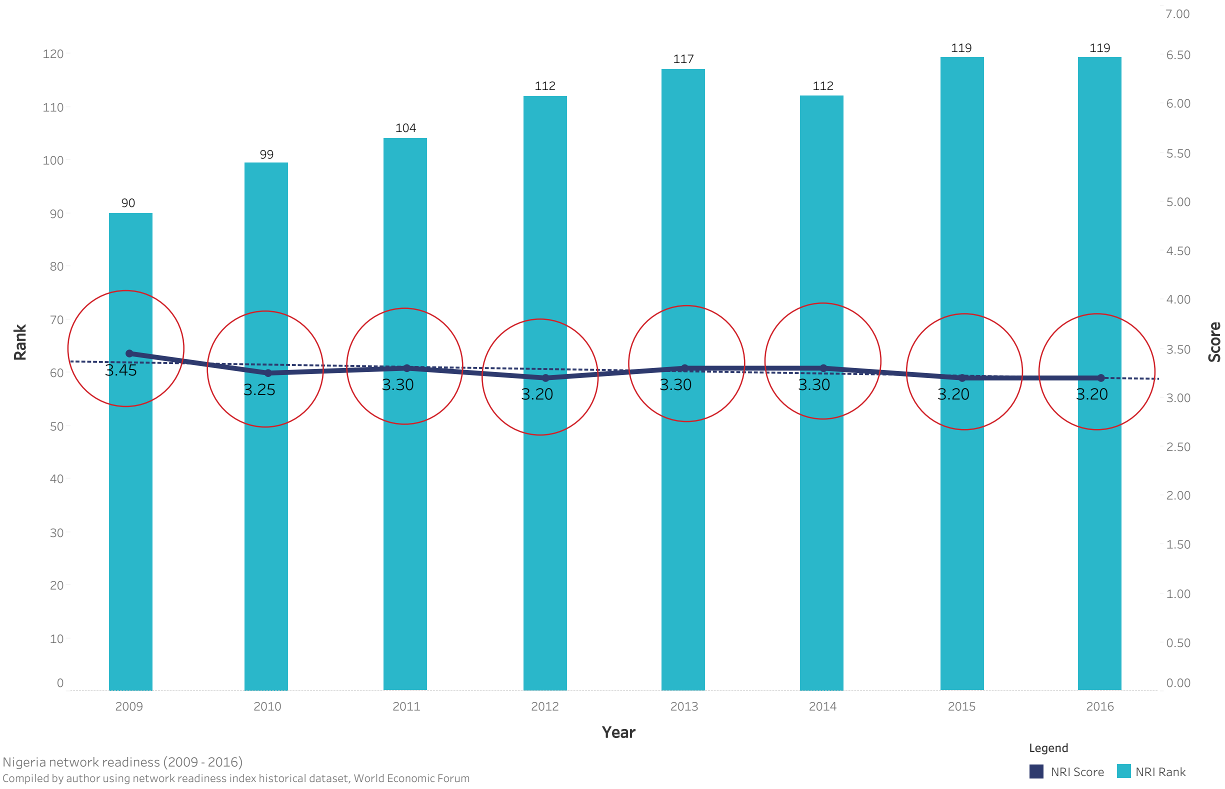
DIGITAL ASSETS

Mobile phone penetration (device ownership or access) remains an inhibitor of digital financial services adoption.

Information and communications technologies are requisite for the development of a vibrant DFS ecosystem. For decades, the phenomenon otherwise known as the digital divide has been used to explain technology gaps between emerging and developed markets. However, since the introduction of mobile telecommunications systems, previously lagging emerging markets have leapfrogged in closing the digital gaps. As a nation, the World Economic Forum's network readiness index (NRI) illustrates Nigeria's floundering digitalisation progress, a composite of environment, readiness, usage and impact variables (Figure 54).

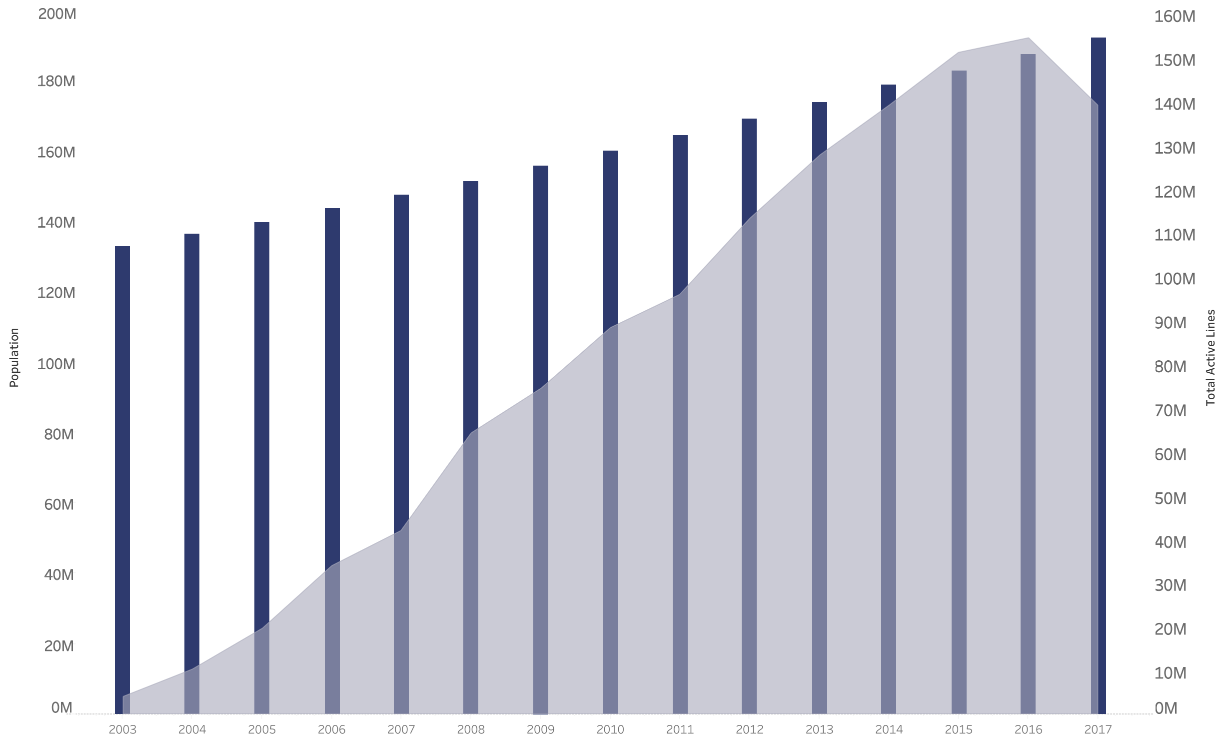
In addition to digitisation benefits such as lower transaction costs, the liberalisation of the telecommunications sector and widespread deployment of mobile telecommunications systems resulted in significant access to digital capabilities through mobile devices with mobile penetration rates exceeding 100 percent between 2015 and 2016 (Figure 55). Thus, the mobile telephony subscriber base supports the case for DFS deployment and adoption and emerging markets bridging the digital divide.

Figure 54



Nigeria network readiness (2009 - 2016)
Compiled by author using network readiness index historical dataset, World Economic Forum

Figure 55

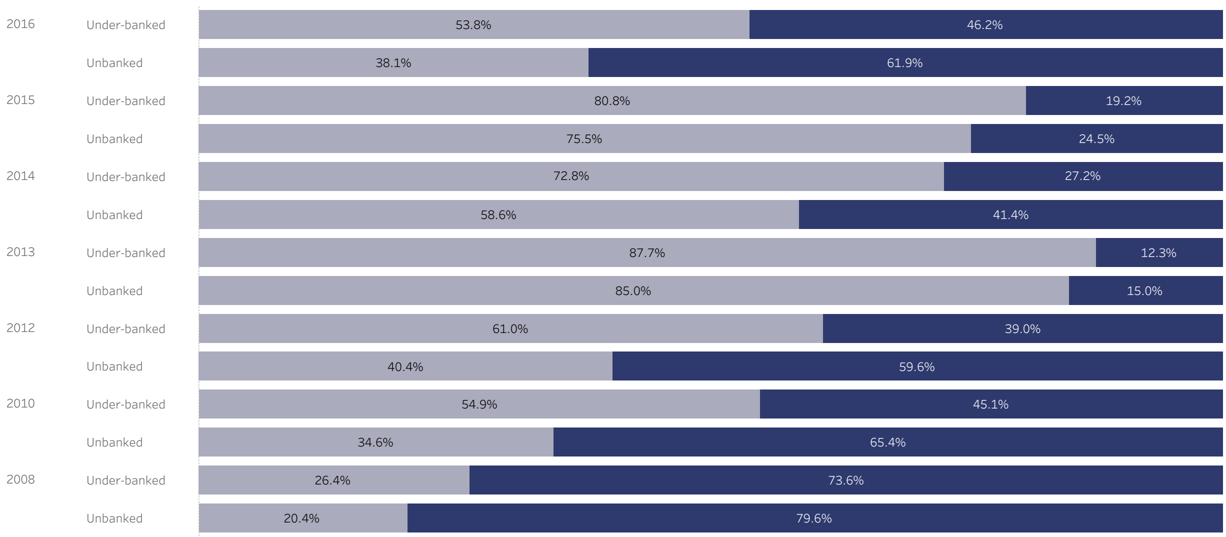


Population plot by total active telephone lines (2004 - 2017)
Compiled by author with data published by NCC & Internet World Stats

PHONE OWNERSHIP

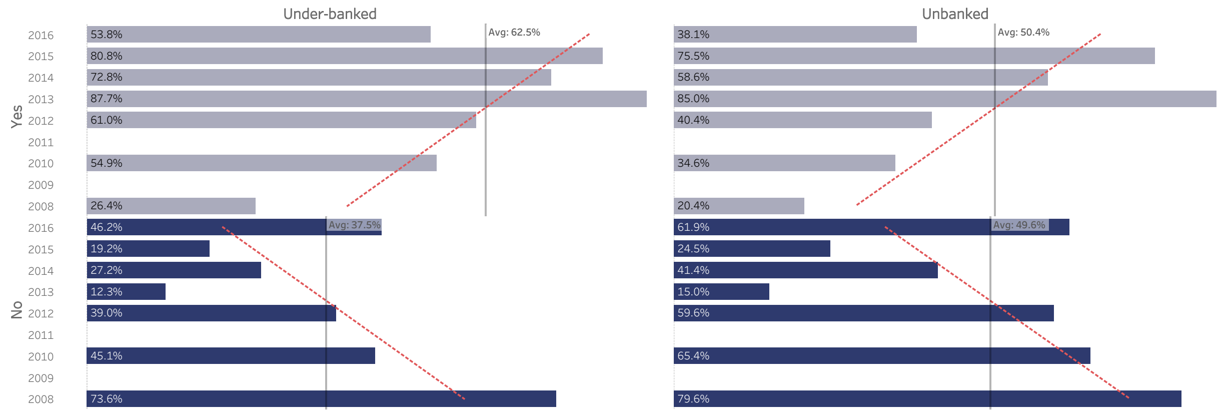
Despite the mobile communications advancements and penetration (teledensity) exceeding 100 percent in 2015 and 2016, phone ownership statistics, albeit increasing, confirm multiple device ownership (Figure 56, Figure 57).

Figure 56



Phone ownership strands (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 57

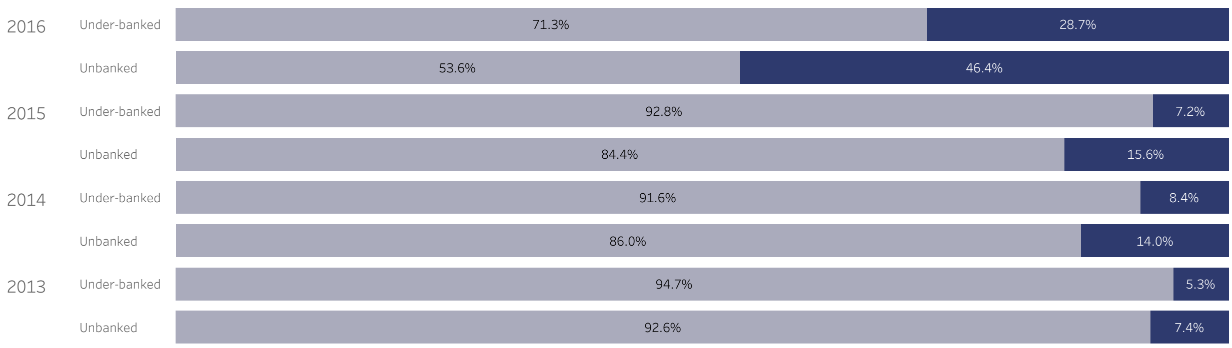


Phone ownership summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

PHONE ACCESS

On the other hand, the declining trend in phone access may support the rising ownership trend (Figure 58, Figure 59).

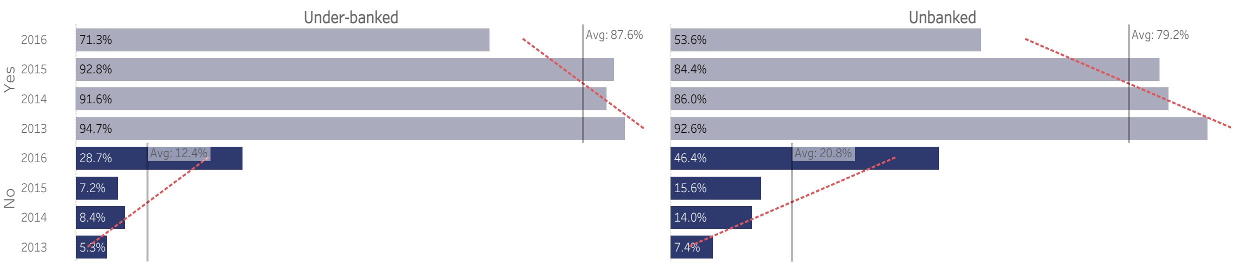
Figure 58



Phone access strands (2013 - 2016)
Compiled by author with survey data from Intermedia

Legend No Yes

Figure 59



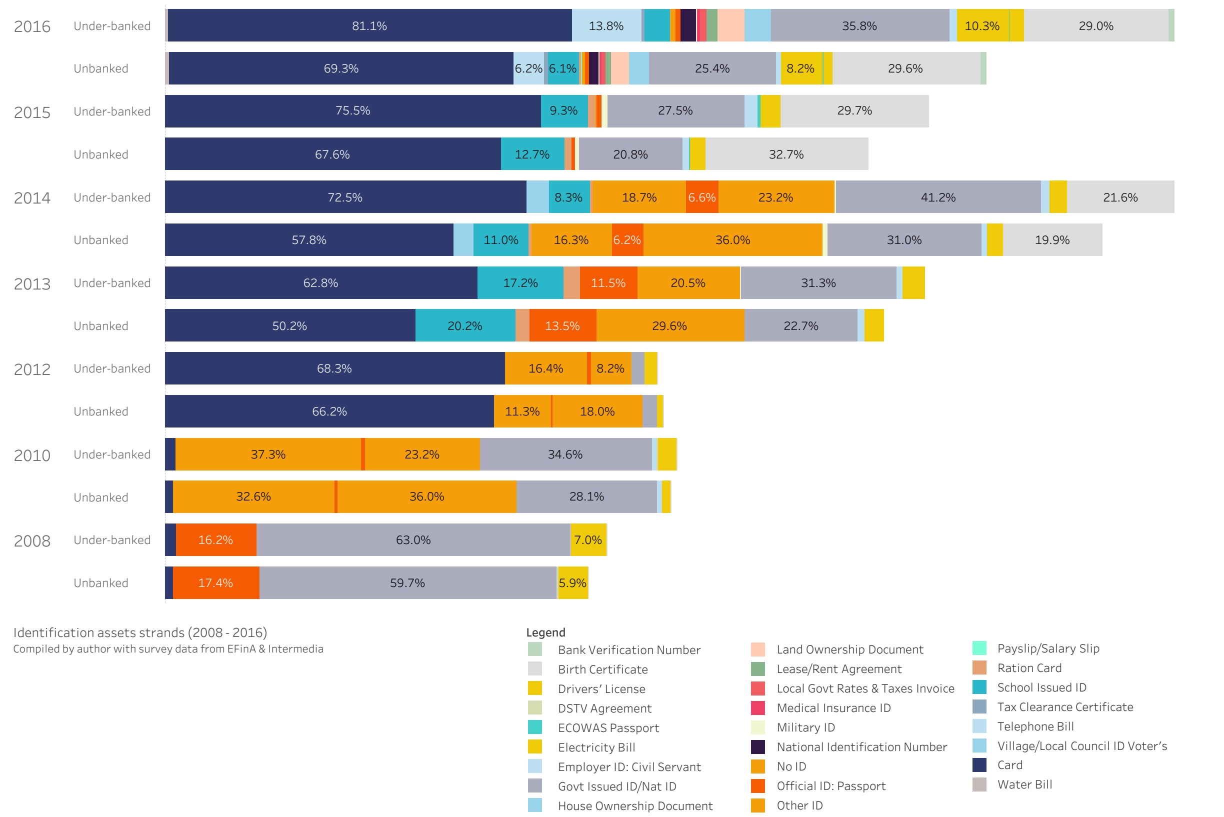
Phone access summary analysis (2013 - 2016)
Compiled by author with survey data from Intermedia

Identification Documents

> The ubiquity of the voter's identification warrants efforts for increasing access to identification documents acceptable and verifiable for financial transactions.

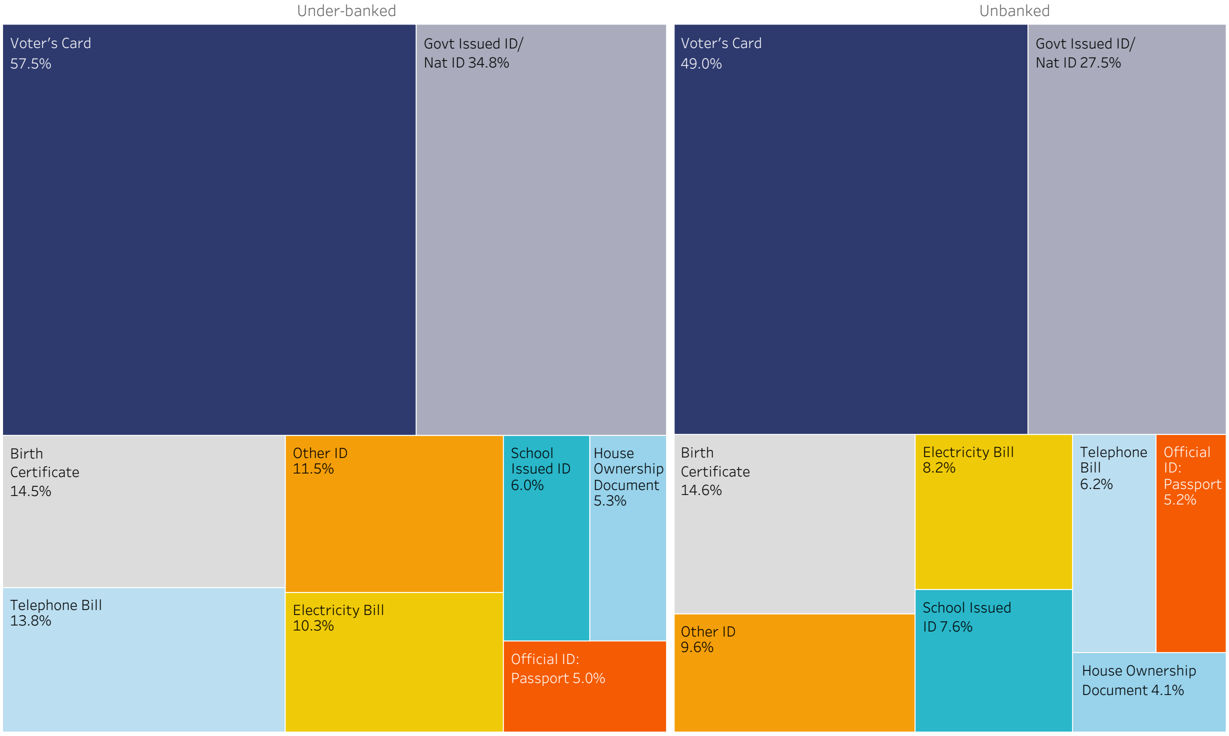
The plethora of identification documents denotes the impact of the widespread availability of a national identity system (Figure 60, Figure 61). While the bank verification numbering (BVN) system that was launched to address this gap has successfully enrolled about 30 million unique bank account holders, it is yet to gain general acceptance amongst the under-banked and unbanked with 1.2 and 1.3 percent enrolled respectively. Likewise, the national identity system with 3.1 and 1.9 percent enrolment amongst the under-banked and unbanked respectively, further emphasises the void. Nonetheless, the voter's identification is the national identification documentation that is most accessible (Figure 62).

Figure 60



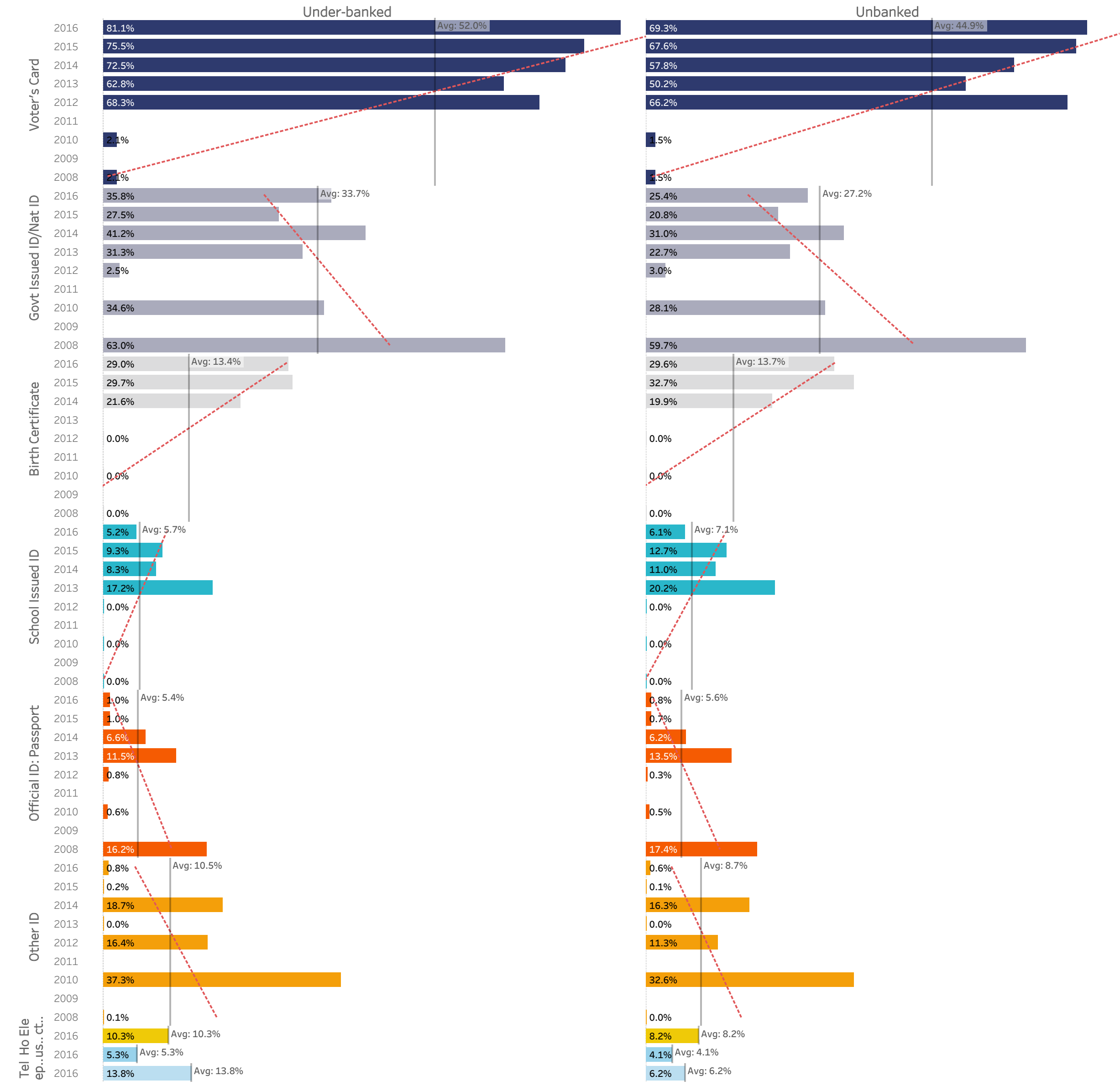
Identification assets strands (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 61



Top 10 identification assets treemap (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 62



Top 10 identification assets summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Competencies

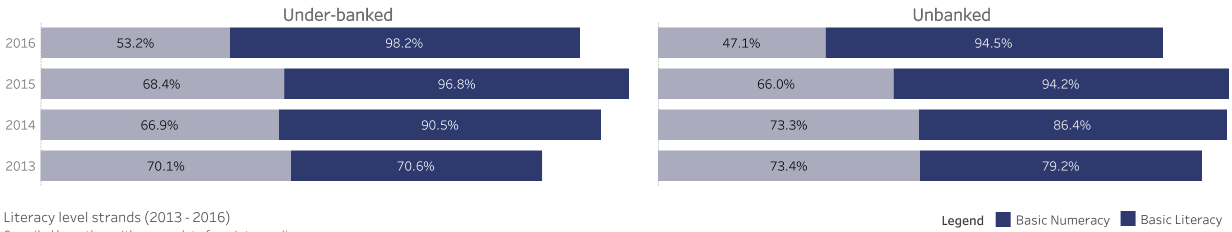
The literacy and numeracy levels do not inhibit financial inclusion; however, non-English language access to financial services will be advantageous.

The widespread adoption of self-service DFS systems necessitates some degree of digital and financial literacy and communication capabilities using mobile devices.

LITERACY

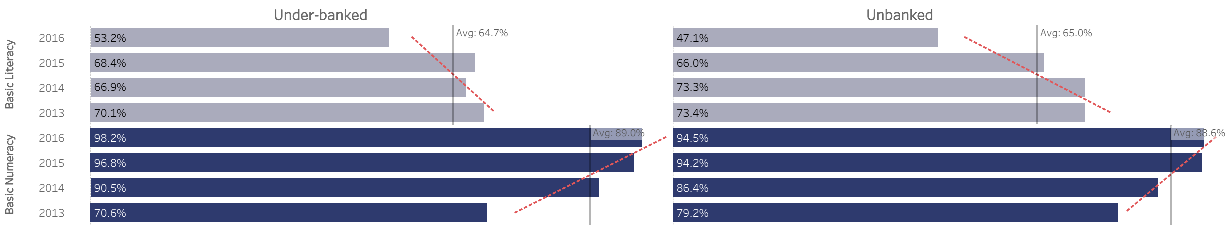
With a growing population segment without formal education, literacy capabilities of the under-served also provide insights. The World Bank classifies a person with the ability to read and write a short, simple statement on their daily life as literate. By this definition, literacy encompasses the ability to make simple arithmetic calculations, otherwise known as numeracy. According to the NBS, 2015 adult literacy levels were in the range of 59.6 percent, considerably higher than 2016 statistics of the under-banked and unbanked[7] (Figure 63, Figure 64).

Figure 63



Literacy level strands (2013 - 2016)
Compiled by author with survey data from Intermedia

Figure 64



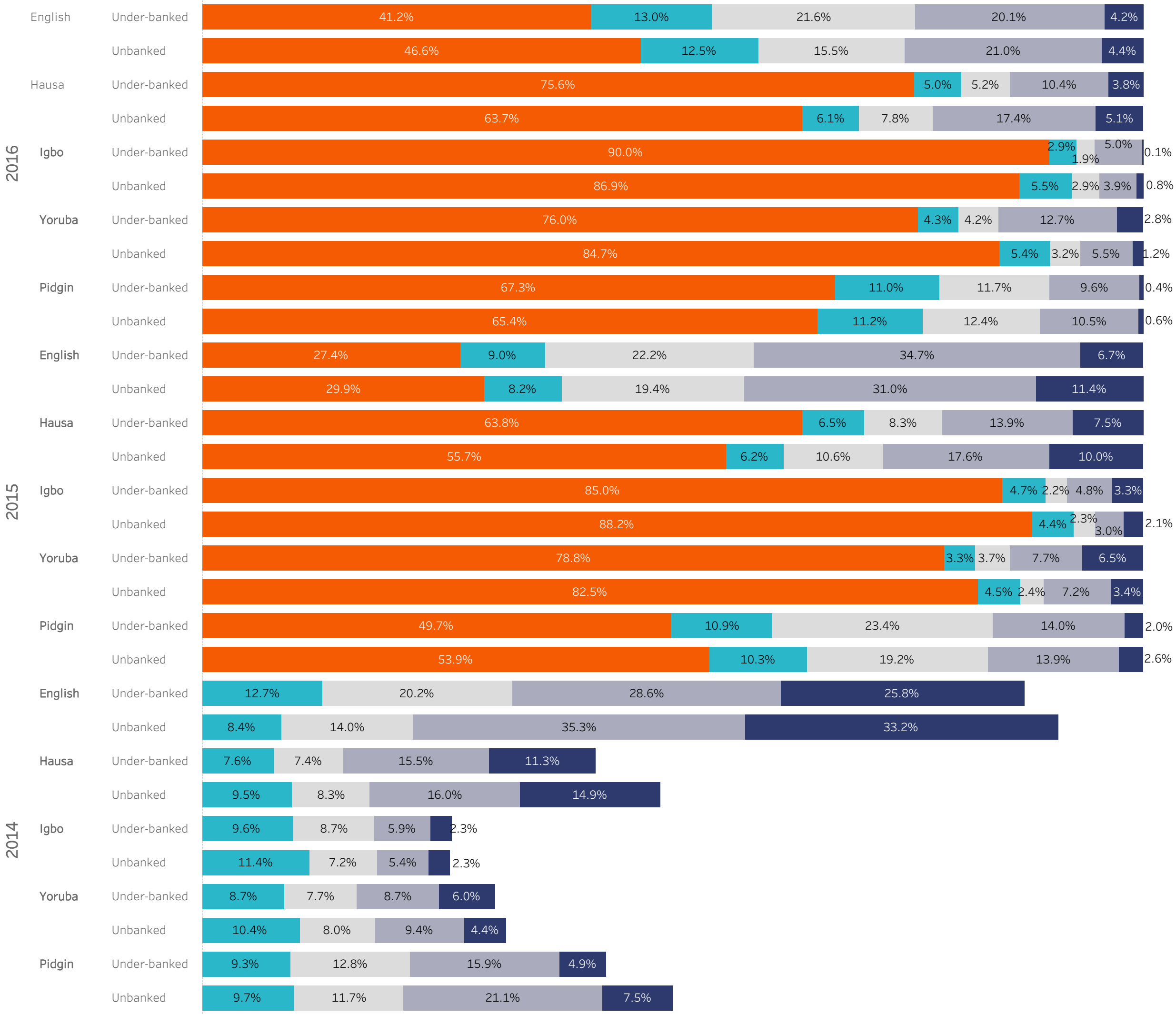
Literacy level summary analysis (2013 - 2016)
Compiled by author with survey data from Intermedia

COMMUNICATION

In multi-ethnic Nigeria, the ability to communicate in other indigenous languages also demonstrates literacy (Figure 65, Figure 66). The analyses of language competencies exhibit a higher proficiency of English, Pidgin English and Hausa (Figure 67, Figure 68).

7 https://knoema.com/atlas/Nigeria/topics/Education/Literacy/Adult-literacy-rate

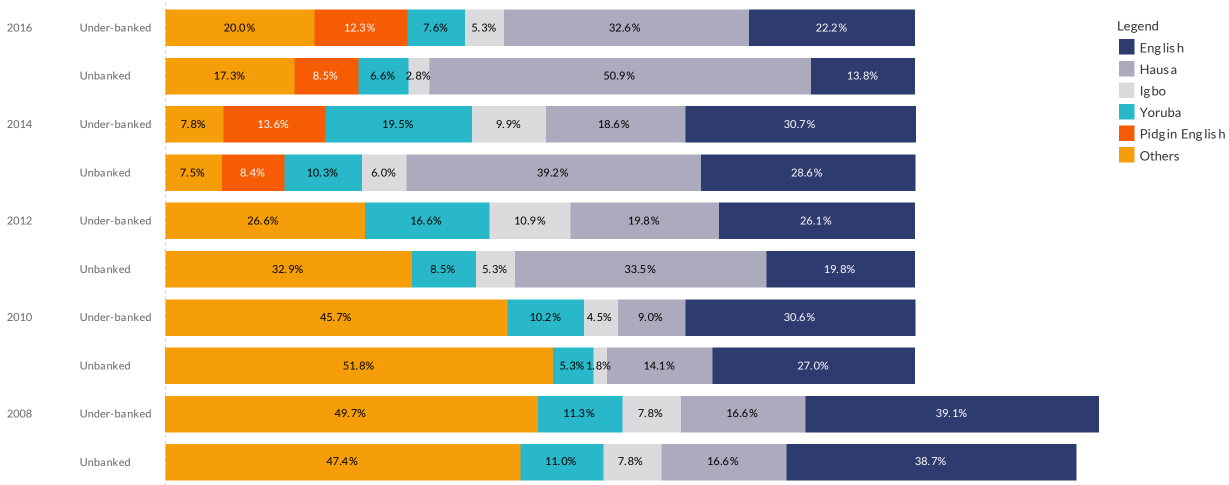
Figure 65



Single language expertise strands (2014 - 2016)
Compiled by author with survey data from Intermedia

Legend: Excellent, Good, Somewhat Bad, Very Bad, Cannot do this at all

Figure 66

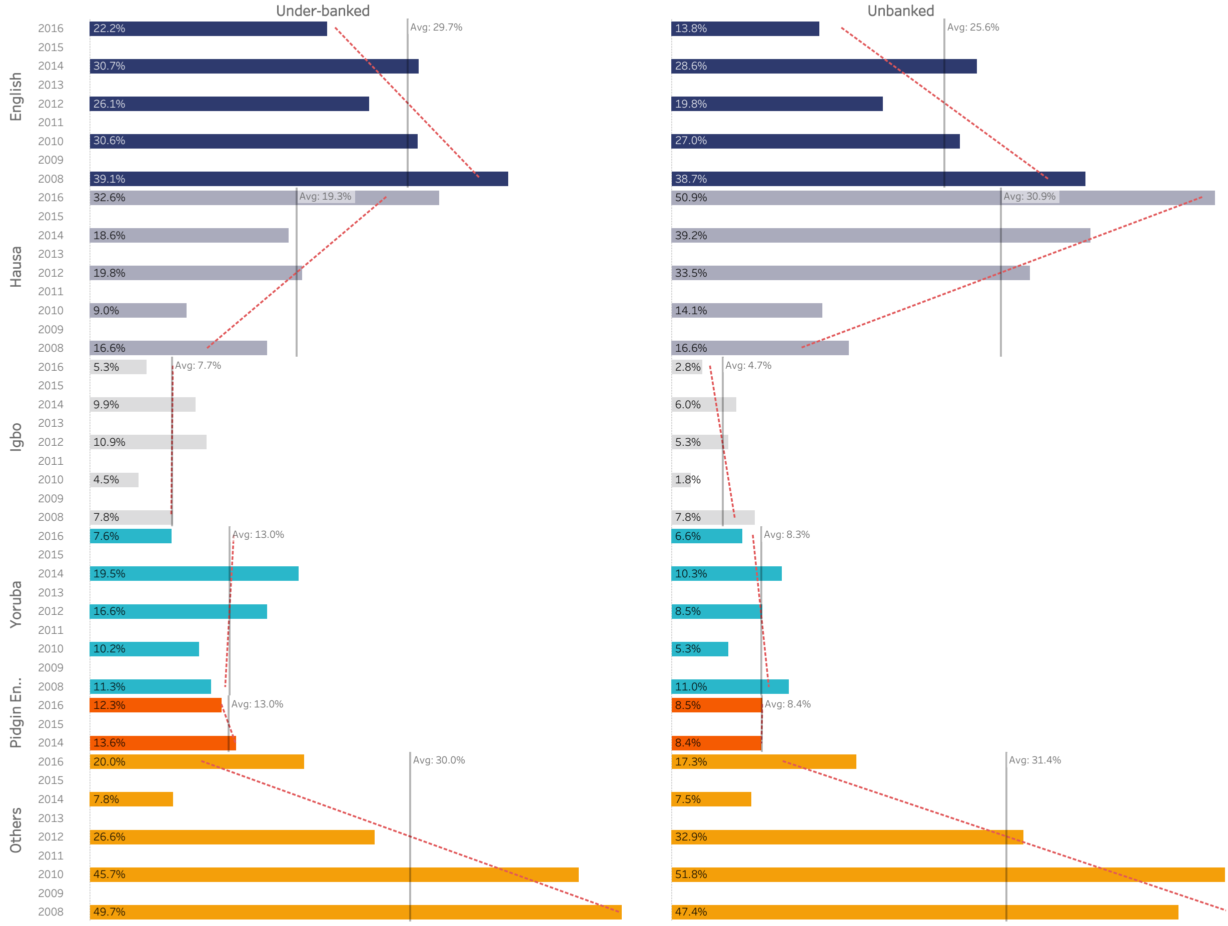


Single language capability strands (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 67

Single language expertise summary analysis (2014 - 2016)
Compiled by author with survey data from Intermedia

Figure 68

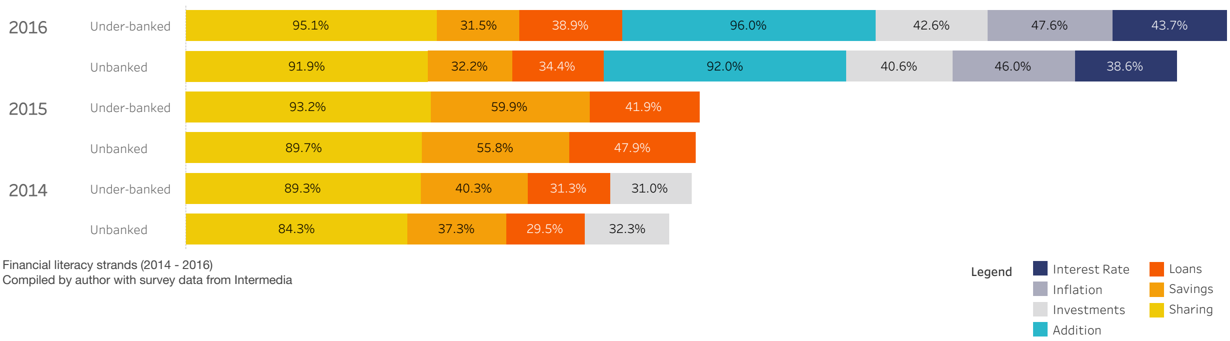


Single language capability summary analysis (2008 - 2016)
Compiled by author with survey data from EFinA

FINANCIAL

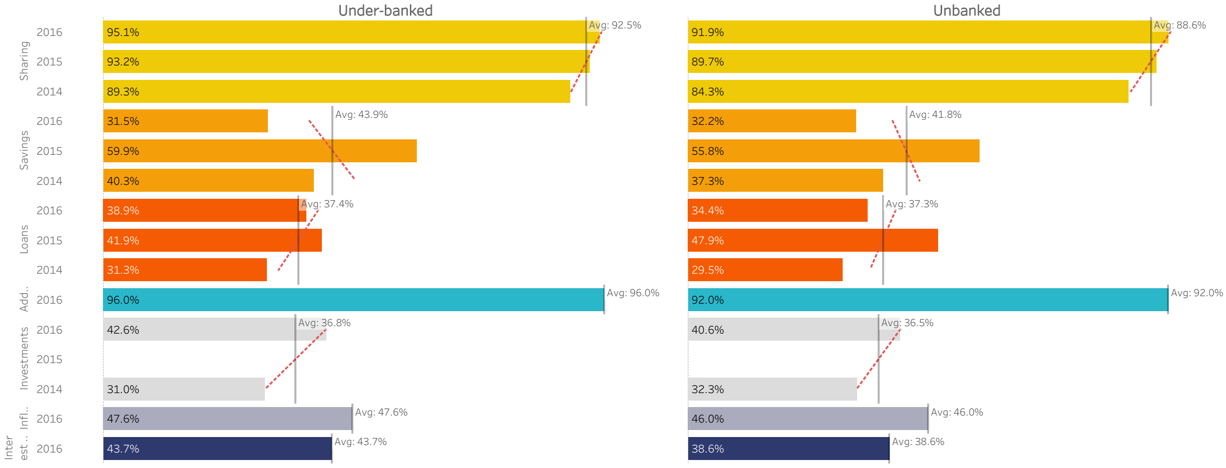
Financial literacy, demonstrated by the basic knowledge of basic economic terms and concepts such as addition, sharing and others, is more prominent with the understanding of functions such as sharing and addition. Knowledge of other financial concepts relating to savings, investments and inflation are not as prevalent (Figure 69, Figure 70).

Figure 69



Financial literacy strands (2014 - 2016)
Compiled by author with survey data from Intermedia

Figure 70



Financial literacy summary analysis (2014 - 2016)
Compiled by author with survey data from Intermedia

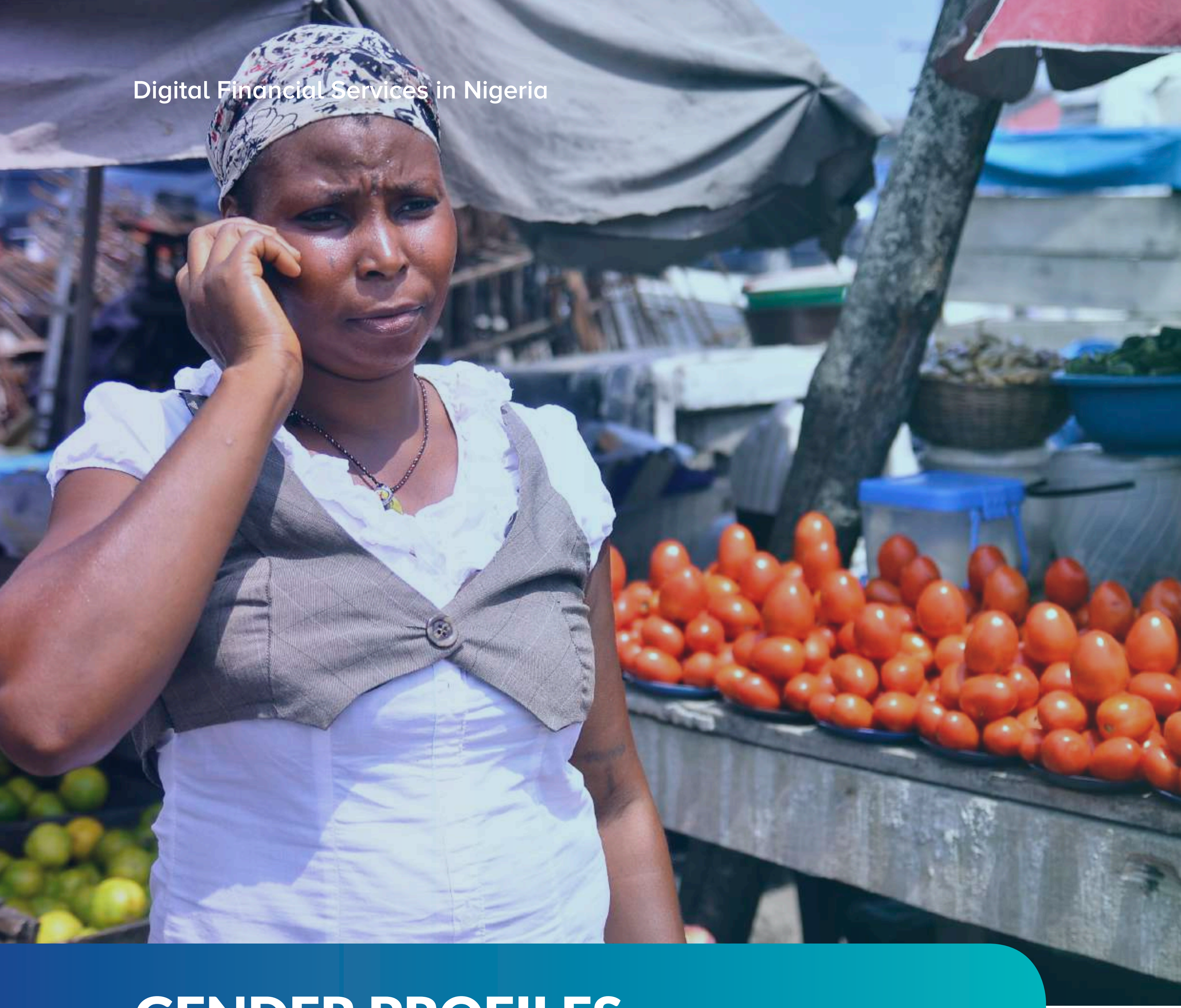

GAJO BEST
DOOR MAT
Easy Life my life
DRESS

Conclusion

Table 2 summarises location, demographic and socio-economic characteristics as well as capabilities of the under-banked and unbanked.

Table 2

	Under-banked	Unbanked
Location	Rural	Rural
Region	North West North Central	North West North Central
Household Size	4+	4+
Household Income Threshold	Below poverty line	Below poverty line
Gender	Female	Male
Age	25 - 44 Over 65	25 - 34
Marital Status	Monogamously Married Widowed	Single Monogamously Married Widowed
Educational qualifications	Primary Secondary	No formal education Primary Secondary
Income Source(s): Employed	MSME/Self-employed Farming Salaried worker	MSME/Self-employed Farming Salaried worker
Income Source(s): Unemployed	Student Housewife/husband Occasional labour	Student Housewife/husband Occasional labour
Naira Earnings (Value)	N40,000 & below Uncertain	N13,000 & below Uncertain
Income Distribution Quintile	All	All
Digital Assets (Phone ownership/access)	No	No
Identification Document	Voter’s card	Voter’s card
Literacy/Numeracy Levels	Basic	Basic
Communication Languages	English Hausa Pidgin English	English Hausa Pidgin English
Financial Literacy	Sharing Addition	Sharing Addition



GENDER PROFILES

Despite making up half of the world's population, nearly one-third of women are financially excluded and operating below their potential.

Likewise, Nigeria's female and male population ratios are roughly equal, but the characteristics of potential female financial consumers are relatively unknown. This section profiles under-served women, with insights into their locations, demographics, socio-economic status as well as capabilities.

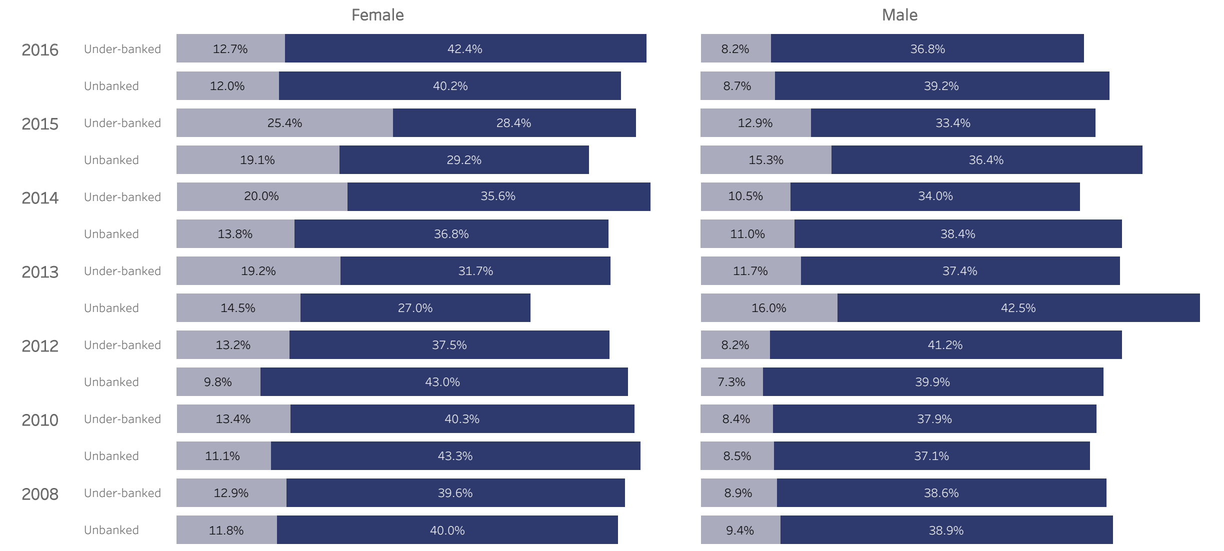
Community Perspective

Female urban migration is on the rise in the North West, North Central and South West regions.

LOCATION

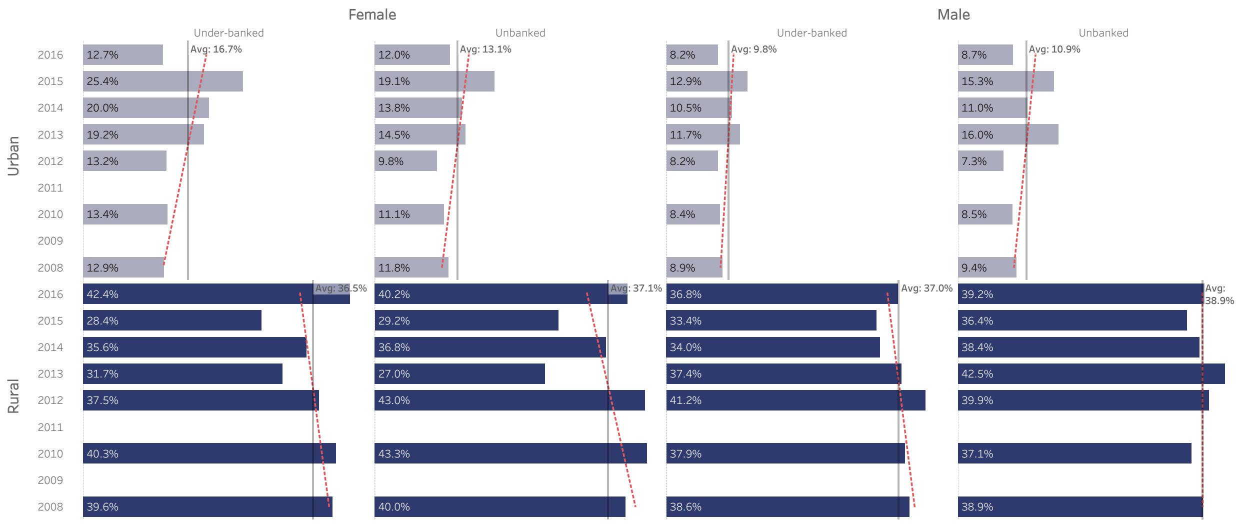
Female rural habitation and urban migration patterns are analogous with the general population with relatively higher migration rates (Figure 71, Figure 72).

Figure 71



Location strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 72

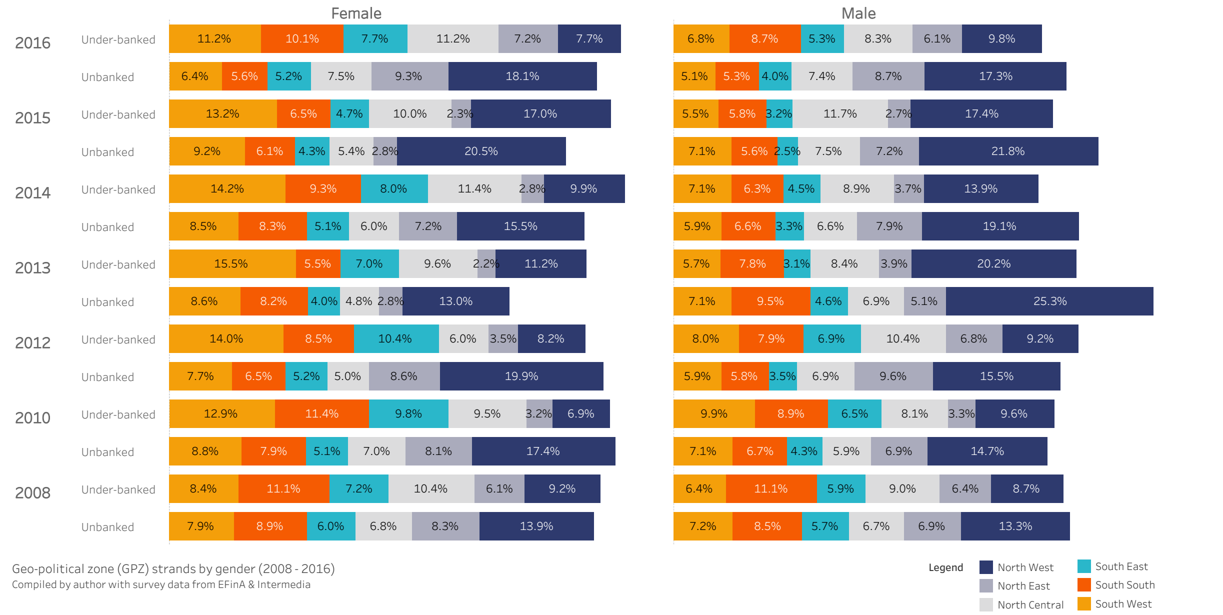


Location summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

REGIONAL DISTRIBUTION

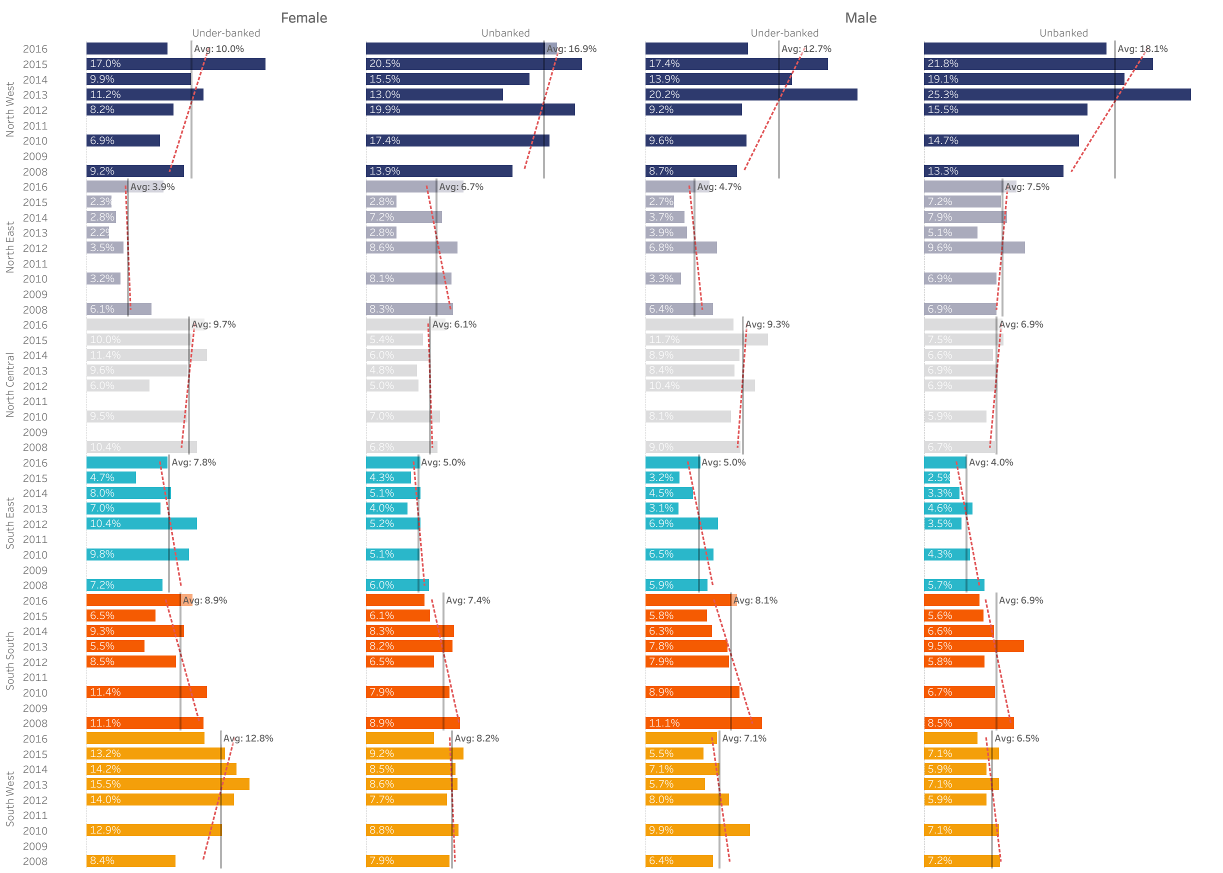
The gender segmentation patterns reveal similar trends among the financially excluded. Females in the North West (under-banked and banked), South West (under-banked), and North Central (under-banked) regions are increasing gradually (Figure 73, Figure 74).

Figure 73



Geo-political zone (GPZ) strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 74



Geo-political zone (GPZ) summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

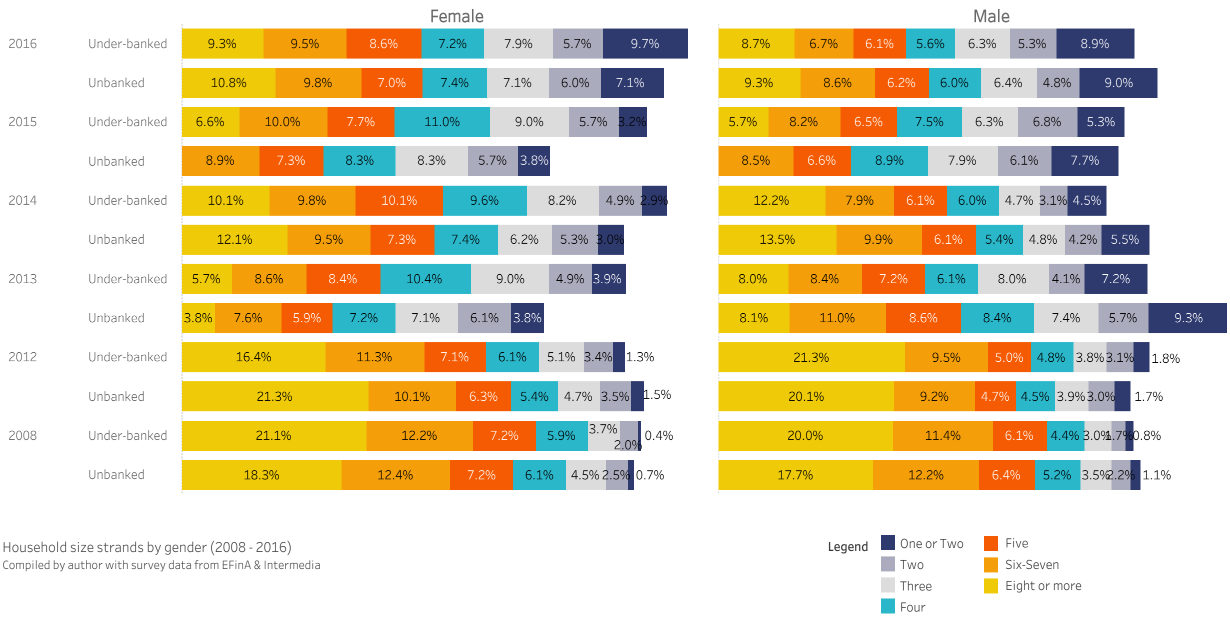
Household Perspective

Income does not marginalise female-occupied households.

SIZE

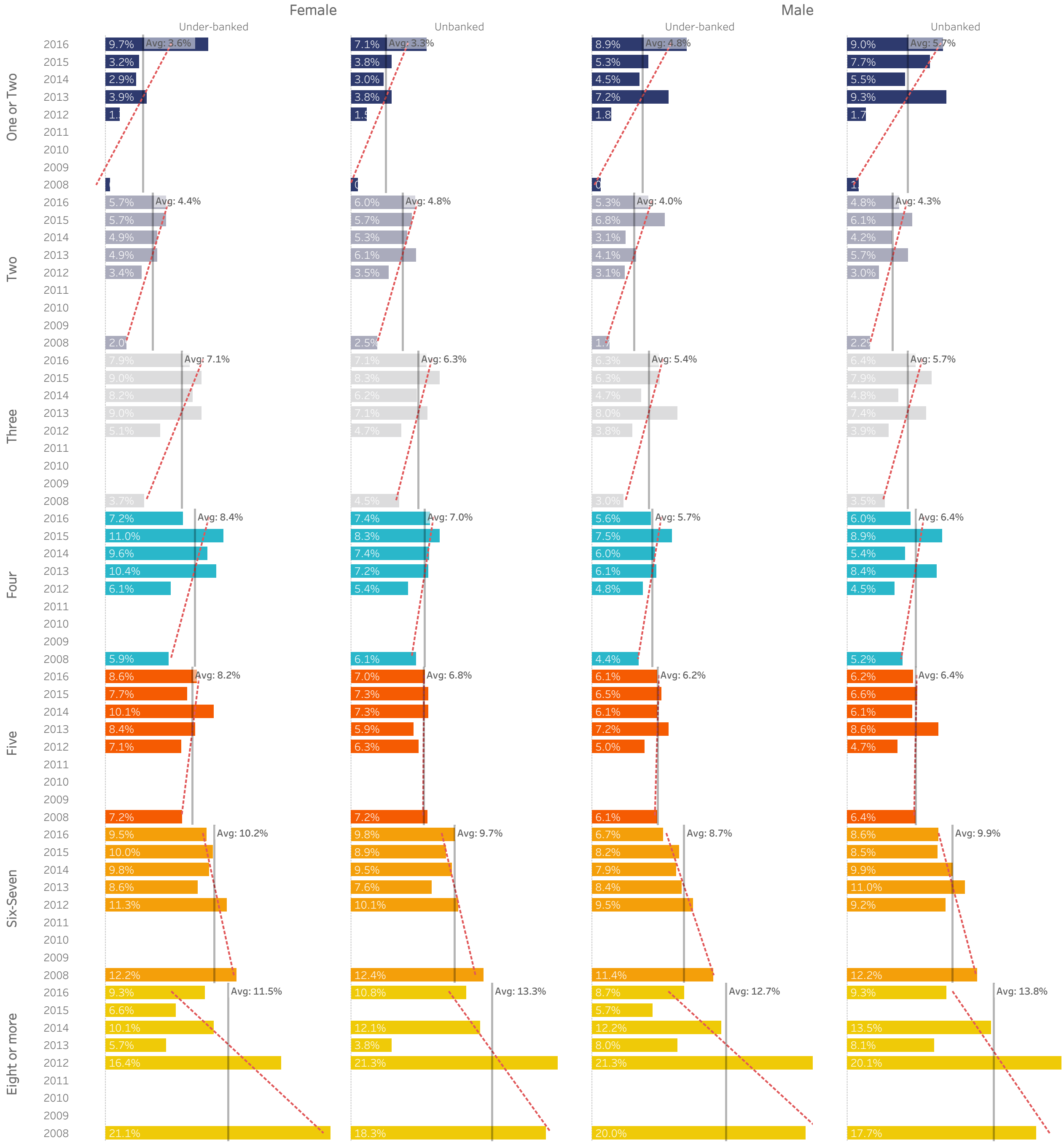
The increasing and declining trends of smaller and larger households respectively are consistent across gender segments. Household stability with five occupants is consistent among unbanked male and female groups, with a slight increase in the category of under-banked females (Figure 75, Figure 76).

Figure 75



Household size strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 76

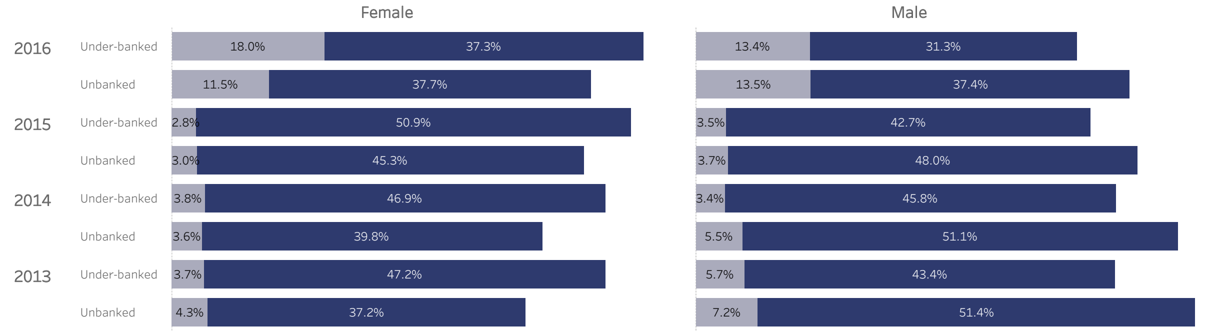


Household size summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

POVERTY THRESHOLD

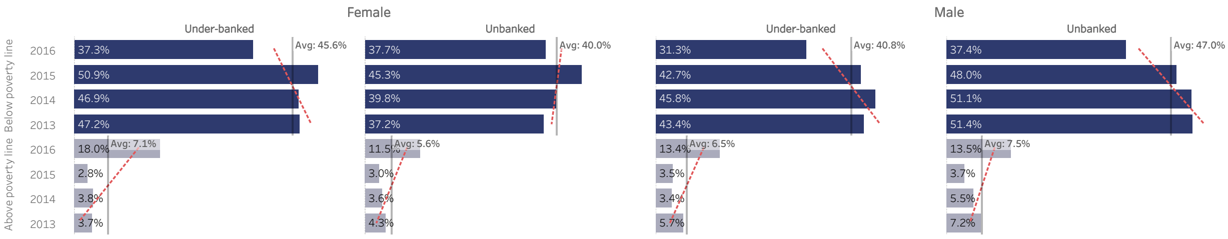
In general, though the majority of women fall below the poverty line, under-banked females crossing the poverty threshold are growing faster than other categories. The data also shows poverty reduction rates among all groups except unbanked women (Figure 77, Figure 78).

Figure 77



Household income strands by gender (2013 - 2016)
Compiled by author with survey data from Intermedia

Figure 78



Household income summary analysis by gender (2013 - 2016)
Compiled by author with survey data from Intermedia

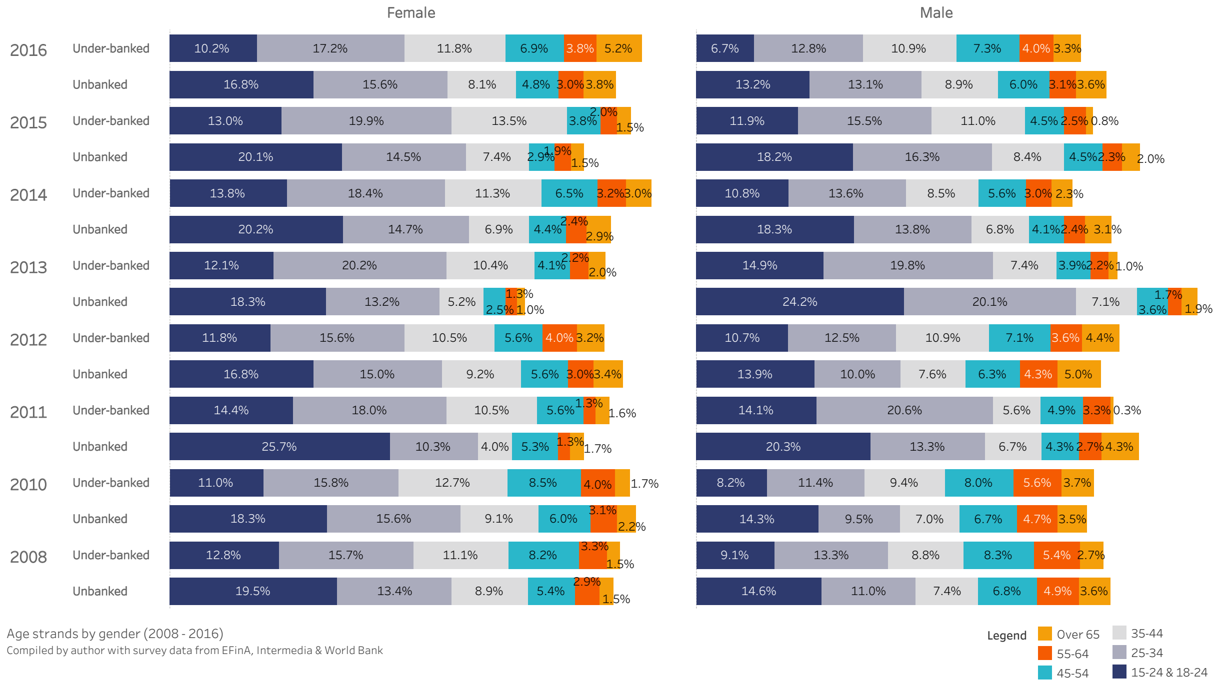
Individual Perspective

DEMOGRAPHIC CHARACTERISTICS

AGE

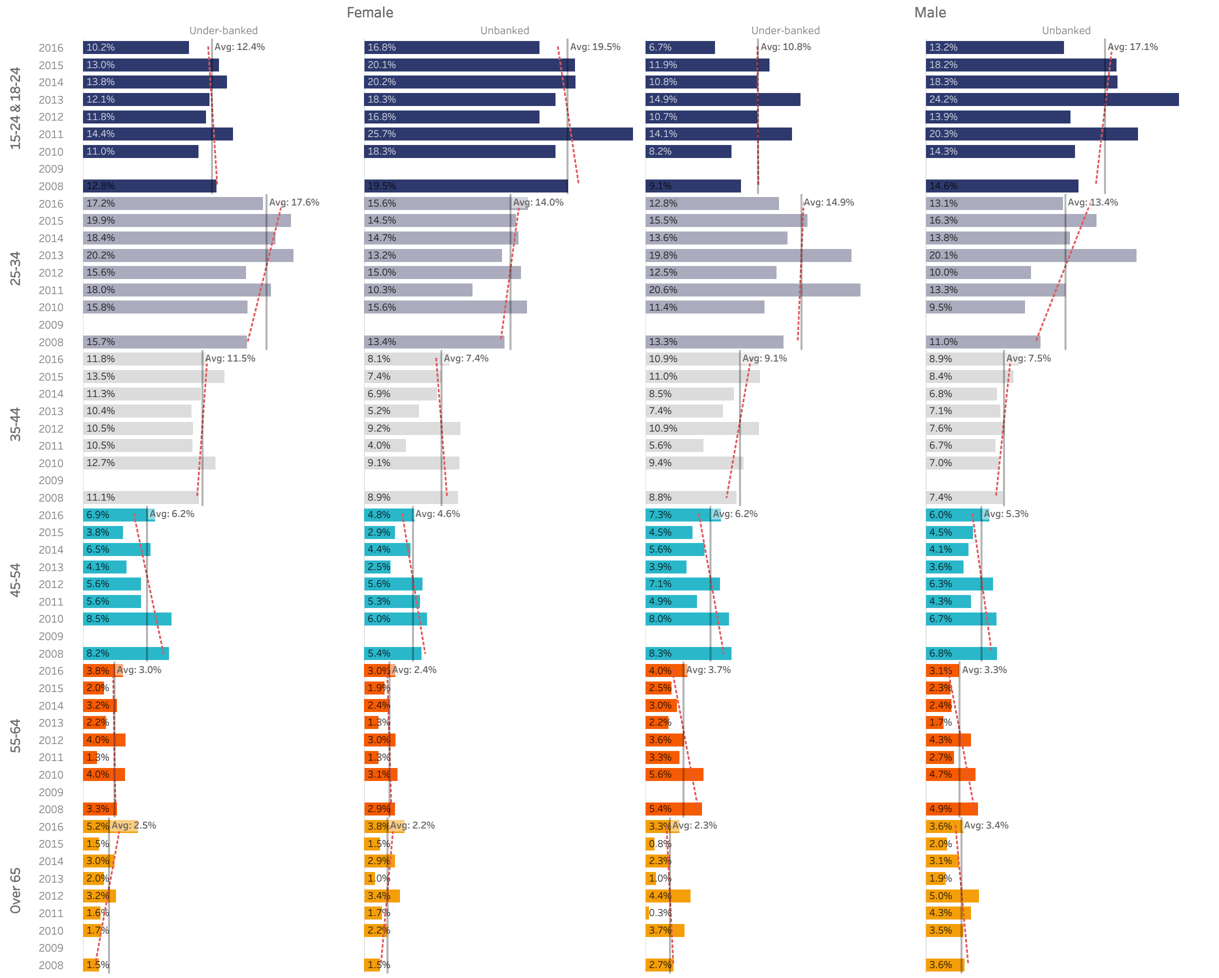
Consistent with trends, financial exclusion among women is on the rise in the 25 to 44 and over 65 age groups within both the under-banked and unbanked segments alongside reductions in the number of women within the 45 to 54 age bracket (Figure 79, Figure 80).

Figure 79



Age strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

Figure 80

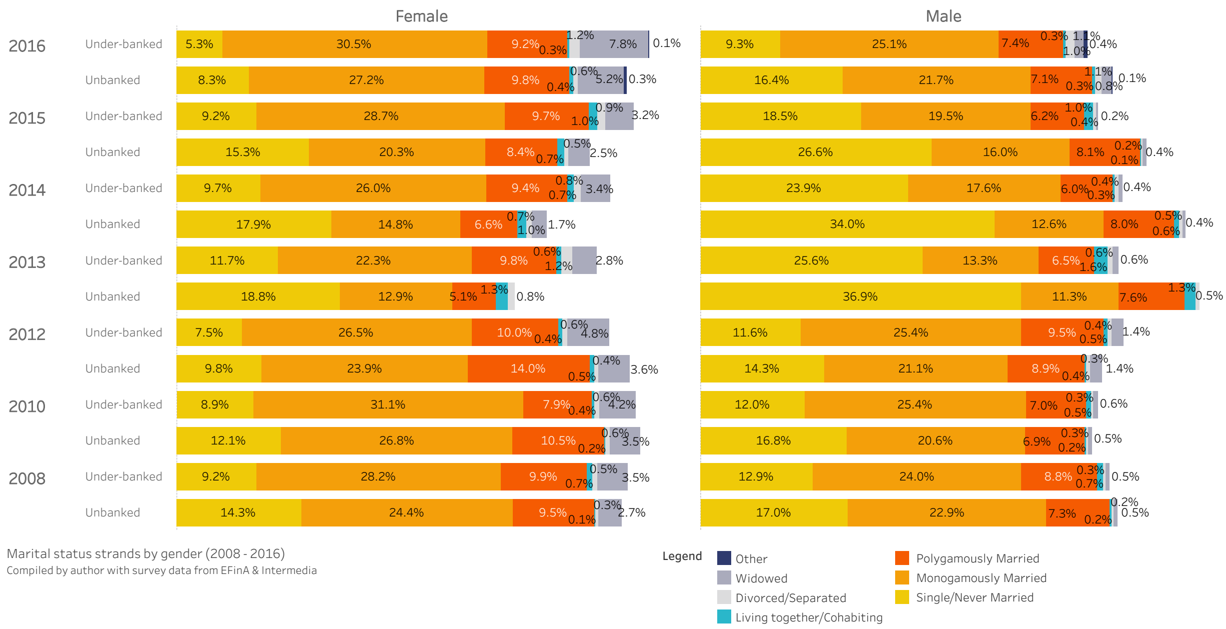


Age summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA, Intermedia & World Bank

MARITAL STATUS

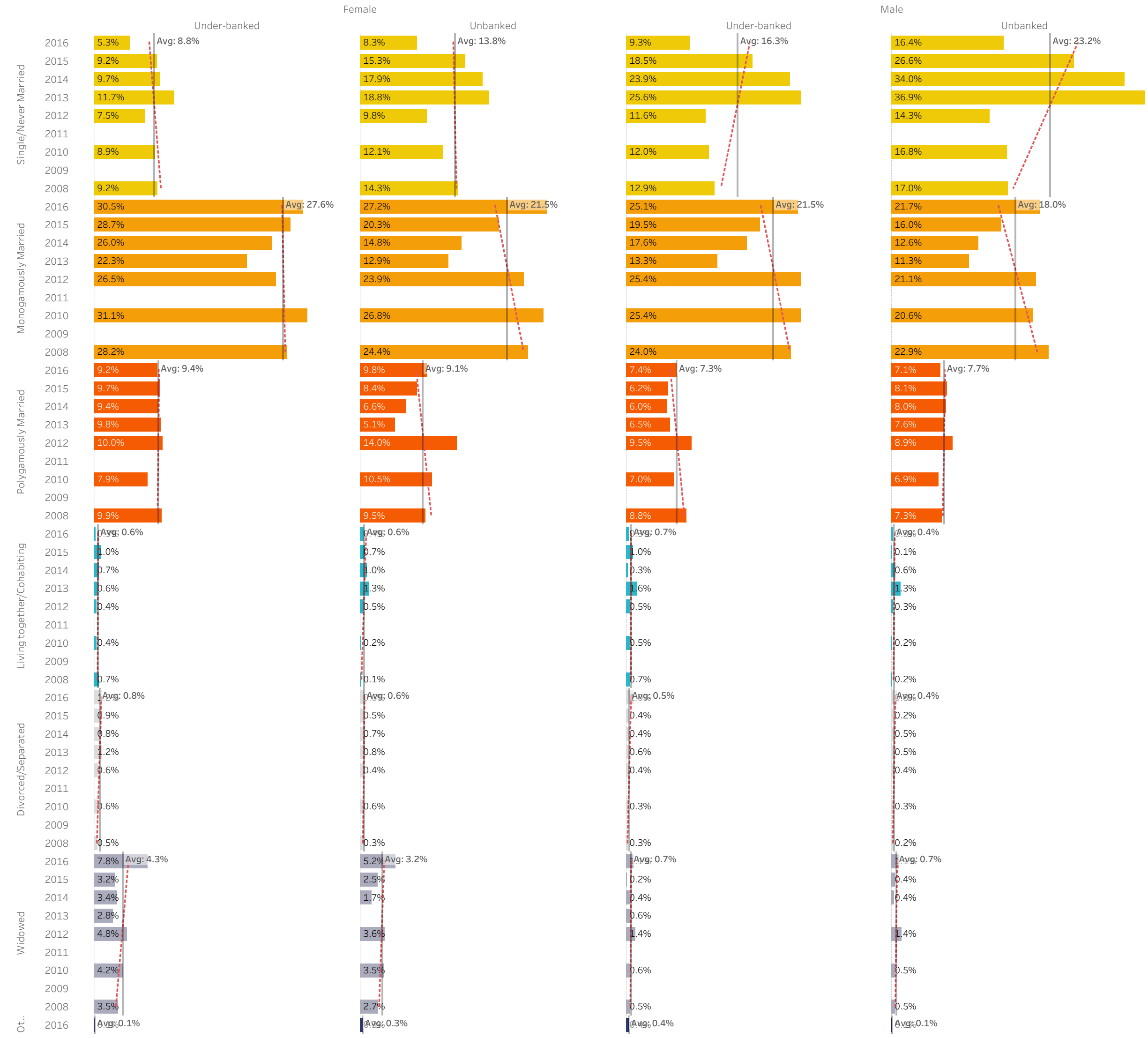
The financial exclusion increases observed among the widowed reported is evidently skewed towards under-banked females. Despite exclusion reductions in 2016, the trends show increasing financial exclusion among unbanked single women (Figure 81, Figure 82).

Figure 81



Marital status strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 82



Marital status summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFInA & Intermedia

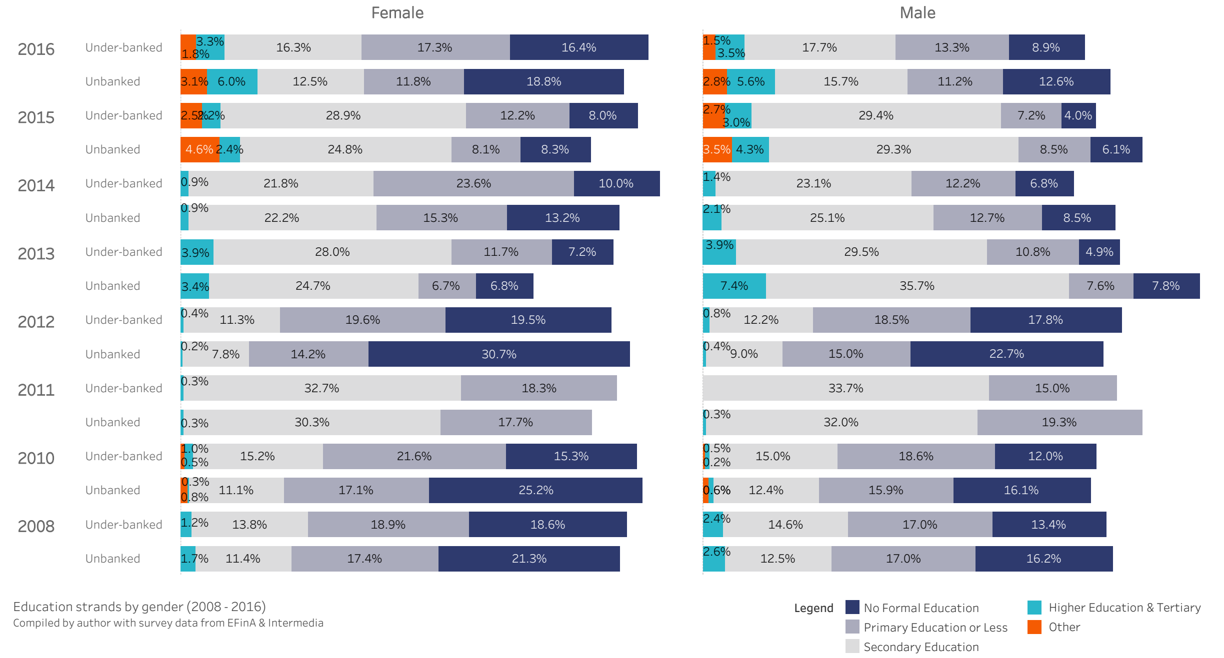
SOCIO-ECONOMIC CHARACTERISTICS

> Despite lower levels of education and earning power, under-banked females are economically engaged.

EDUCATION

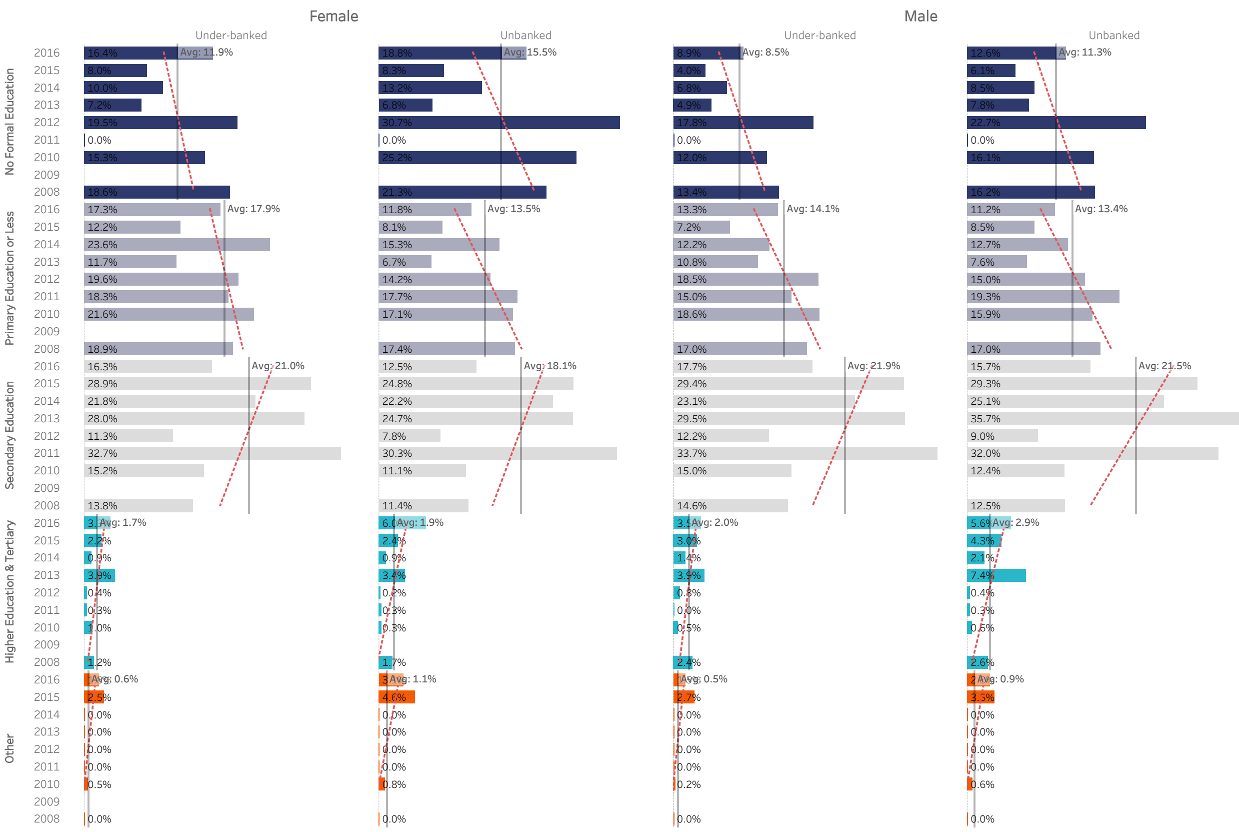
By education, financial exclusion patterns also mirror the general population - increasing levels of exclusion among the more educated - tertiary and secondary levels. Primary and secondary level education certificates are prevalent among females, who at secondary-level within the under-banked group, match their male counterparts and surpass them at the primary level. On the other hand, at the elementary school level, female qualification attainment exceeds males in both the under-banked and unbanked groups (Figure 83, Figure 84).

Figure 83



Education strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 84

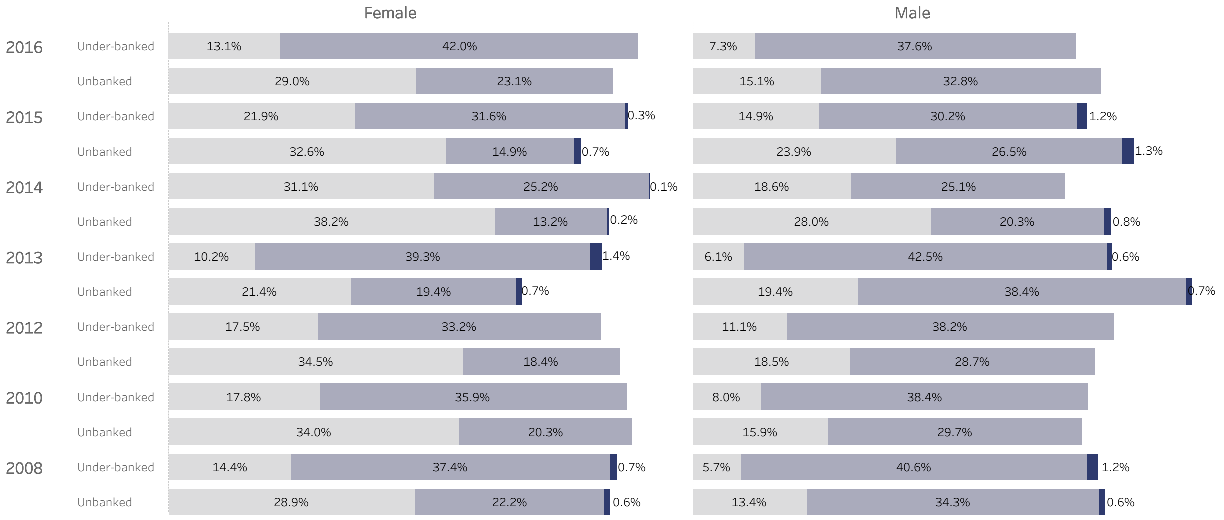


Education summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

EMPLOYMENT

The statistics show clearly female marginalisation in the labour market. Under-banked female employment which has been consistently lagging behind that of the males has improved since 2014 (Figure 85). In general, financial exclusion levels are on the rise among the unemployed and are reducing among the employed, albeit at a higher rate for males (Figure 86). The tree-map of core income sources - regular employment, trading, farming or informal business ownership - further emphasises female roles and economic activity. Compared to their male counterparts, the number of unskilled females is relatively lower; however, businesses owned by women are smaller and more informal (Figure 87, Figure 88).

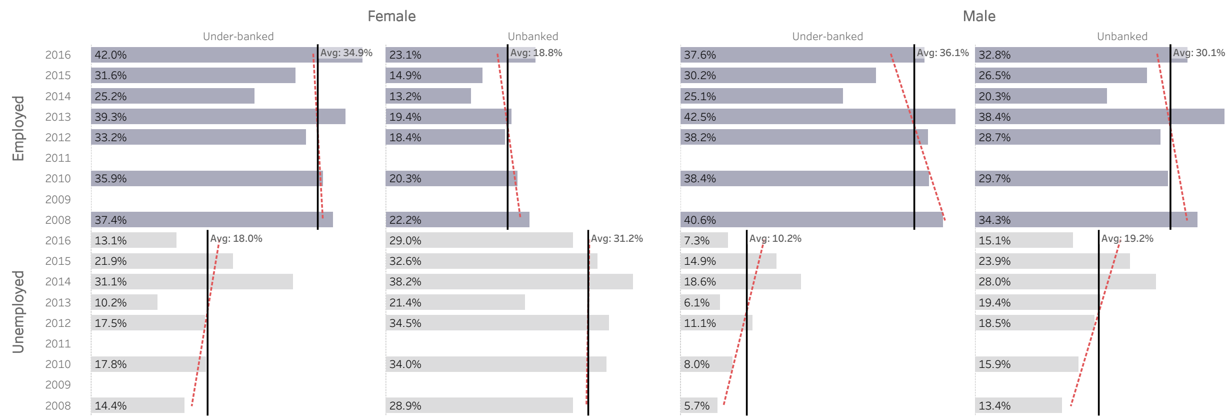
Figure 85



Employment status strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

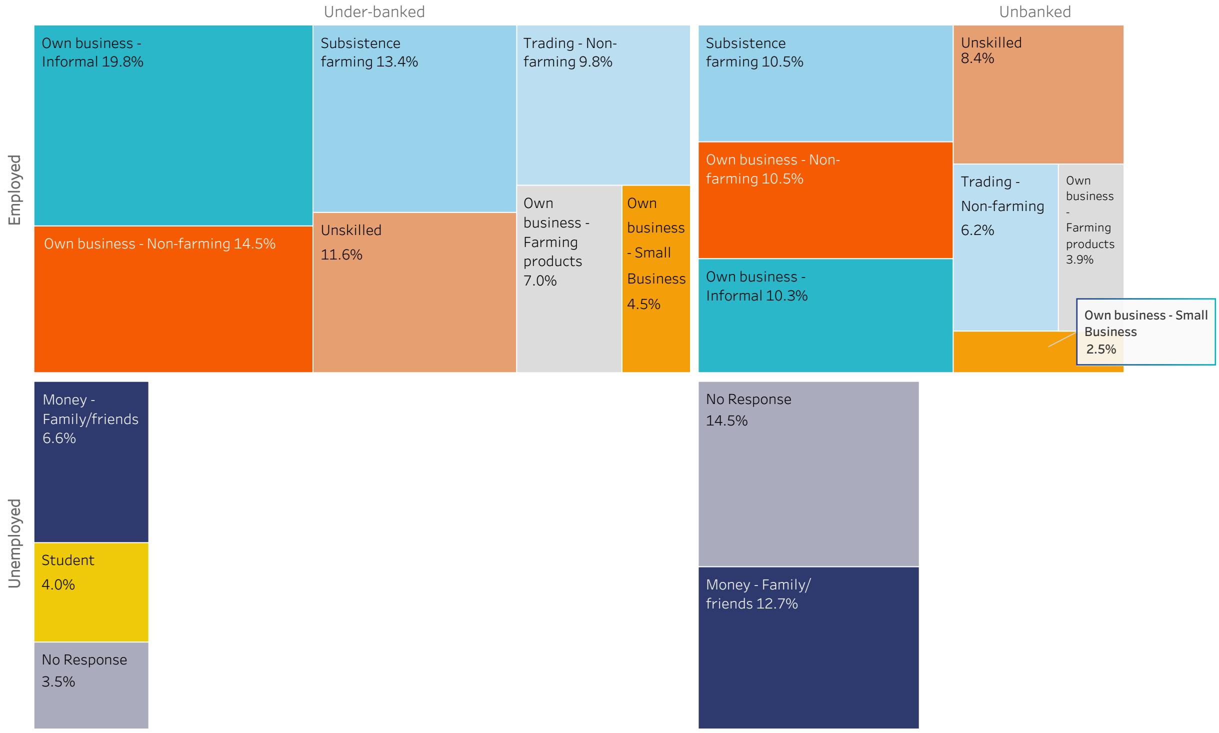
Legend
DK
Employed
Unemployed

Figure 86

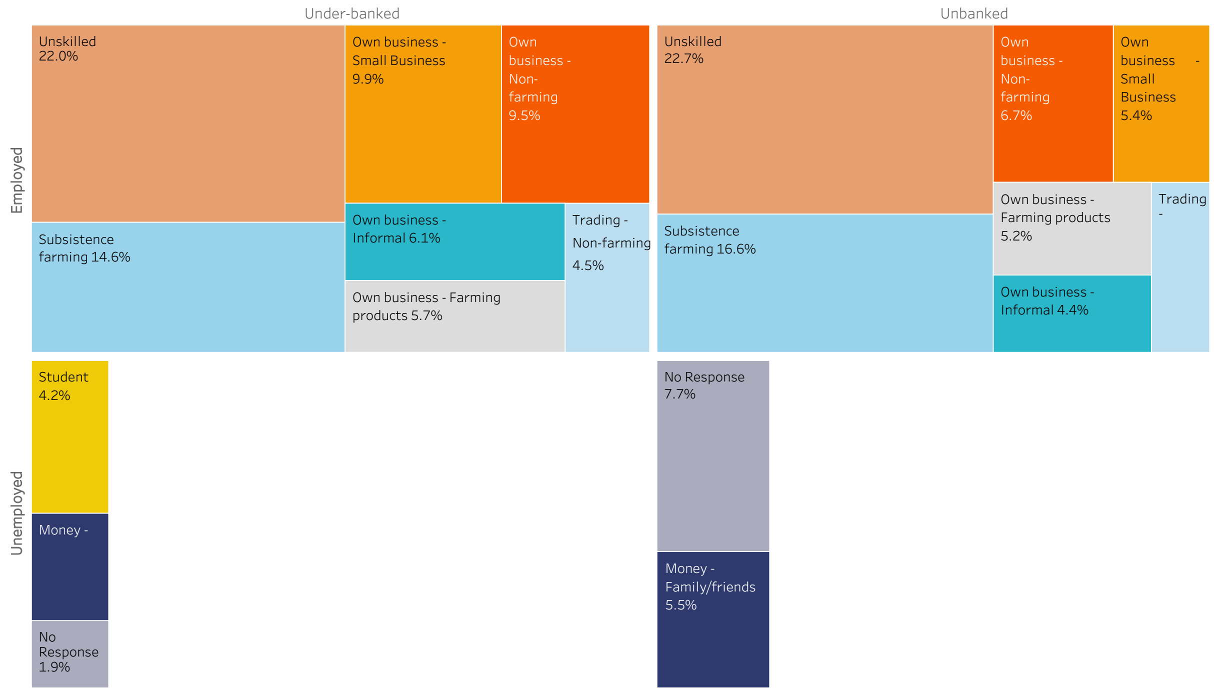


Employment status summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 87

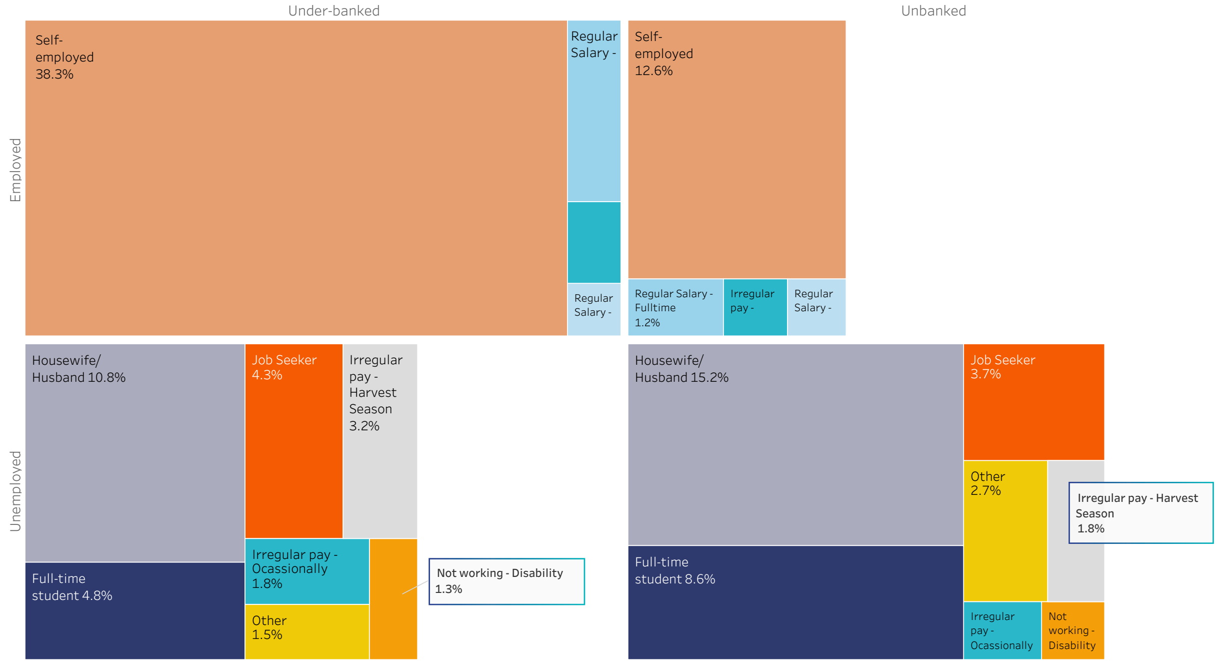


Female income source by employment status treemap (2008 - 2016)
Compiled by author with survey data from EFinA

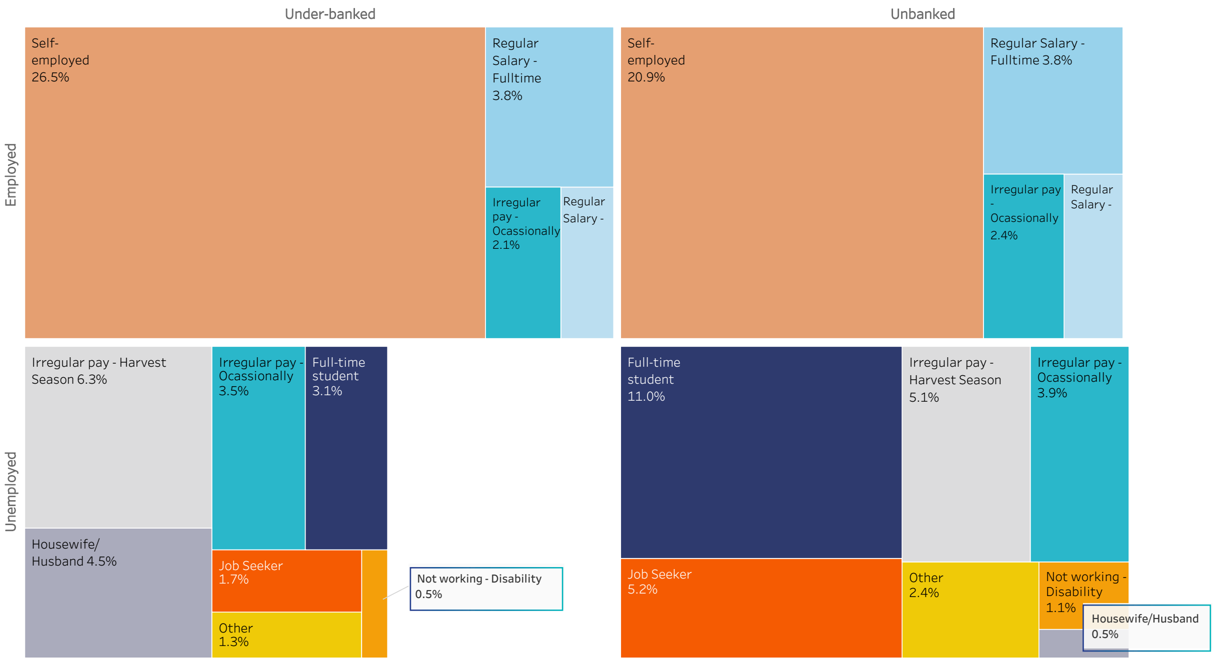


Male income source by employment status treemap (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 88



Female income source by employment status treemap (2013 - 2016)
Compiled by author with survey data from Intermedia

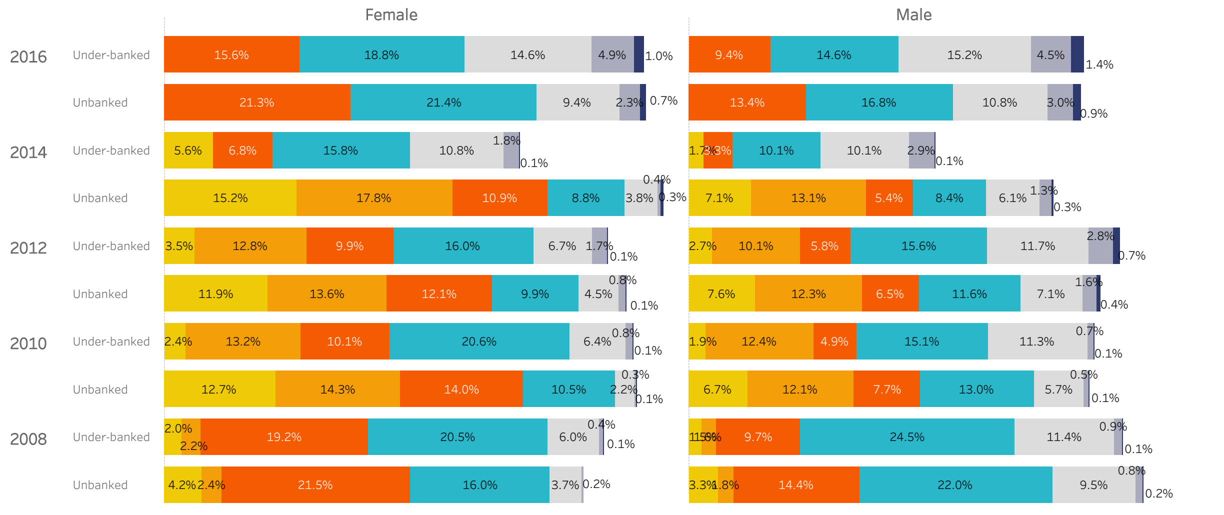


Male income source by employment status treemap (2013 - 2016)
Compiled by author with survey data from Intermedia

INCOME

At the higher-income levels, average financial exclusion levels among females are lower than their male counterparts. However, in the lower-income groups, female exclusion levels are higher. While we cannot suggest the existence of a broad gender-pay, women generally earn lower incomes (Figure 89, Figure 90). Since 2011, the total number of women represented in the income distribution charts has increased when compared to the number of men even though the income distribution quintiles confirm a higher prevalence of lower incomes among the under-banked and unbanked. The proportion of unbanked among the wealthiest and second 20 percent indicates the existence of other inhibiting factors beyond economic status (Figure 91). The income categories' perspective shows different exclusion patterns among women (Figure 92).

Figure 89

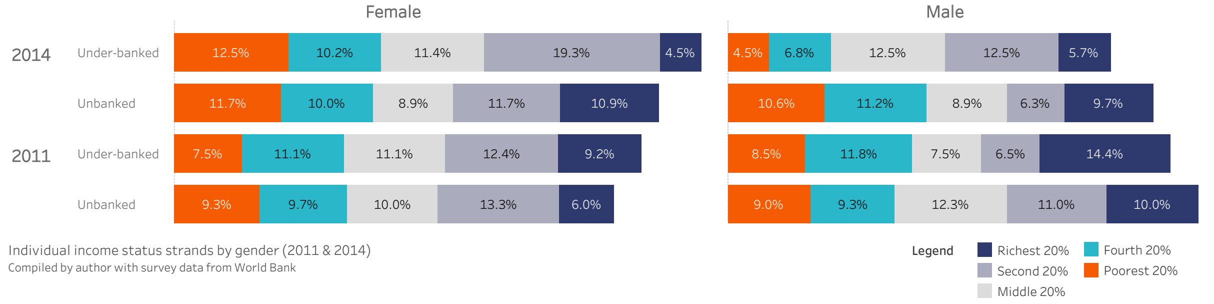


Individual income strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 90

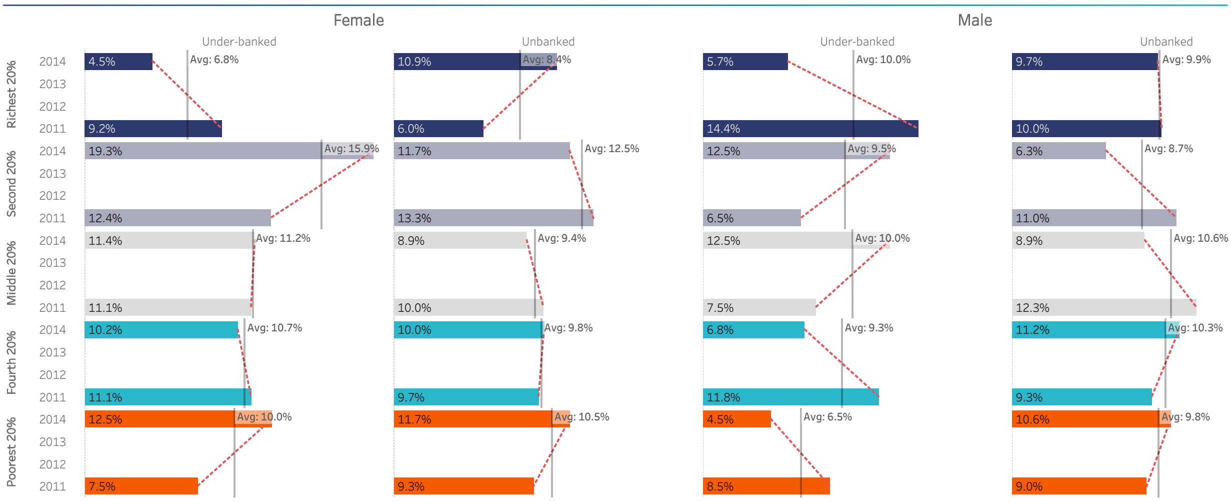
Individual income summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 91



Individual income status strands by gender (2011 & 2014)
Compiled by author with survey data from World Bank

Figure 92



Individual income status summary analysis by gender (2011 & 2014)
Compiled by author with survey data from World Bank

Assets and Capabilities

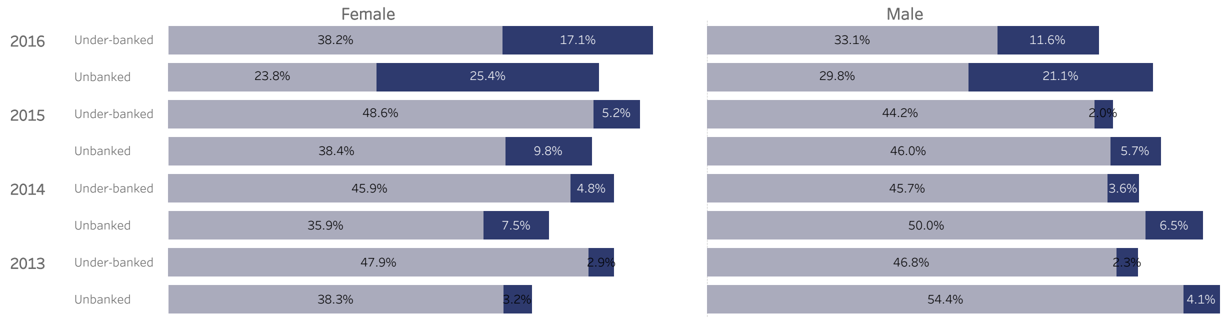
Women still lack access to and ownership of mobile devices

DIGITAL ASSETS

Reports of mobile penetration success are not evident at the bottom of the pyramid where female mobile device access and ownership deteriorated in 2016 (Figure 93, Figure 94, Figure 95, Figure 96).

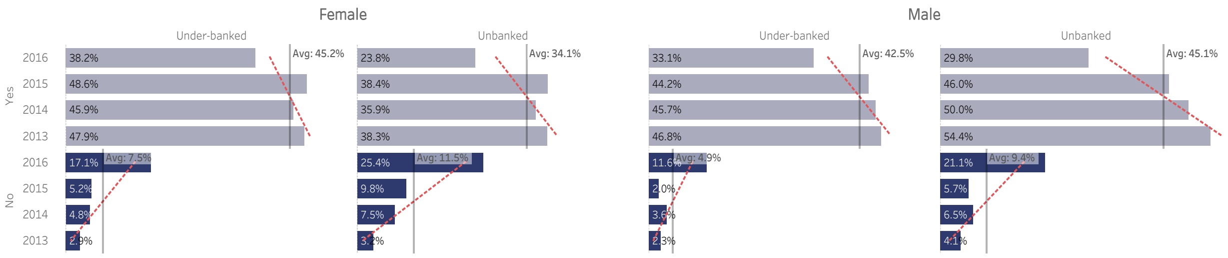
PHONE ACCESS

Figure 93



Phone access strands by gender (2013 - 2016)
Compiled by author with survey data from Intermedia

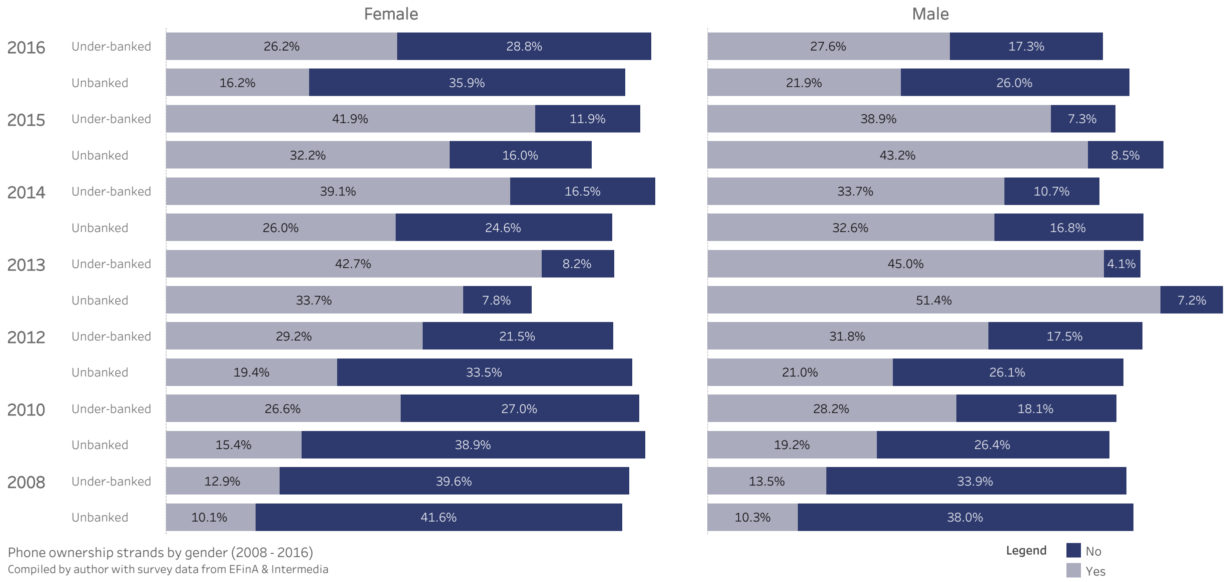
Figure 94



Phone access summary analysis by gender (2013 - 2016)
Compiled by author with survey data from Intermedia

PHONE OWNERSHIP

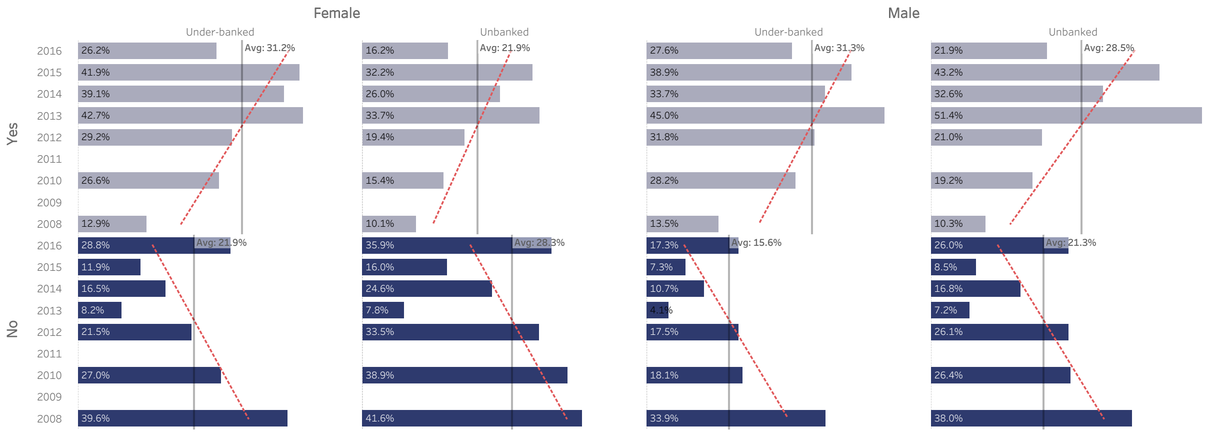
Figure 95



Phone ownership strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia


DIAMOND
86-223
TWOSURE
86-22

Figure 96

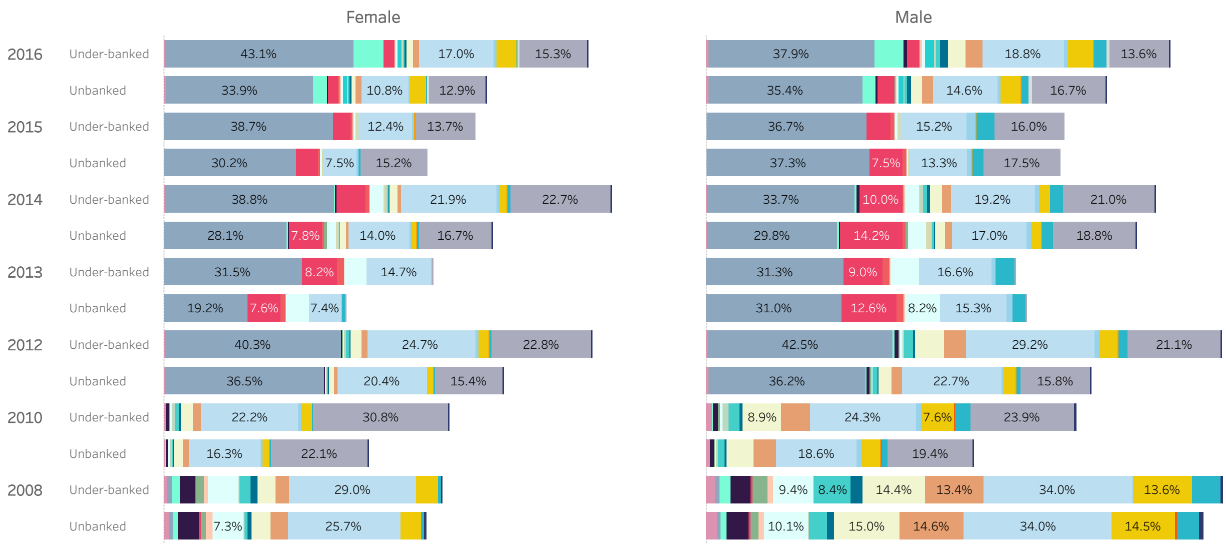


Phone ownership summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

IDENTIFICATION DOCUMENTS

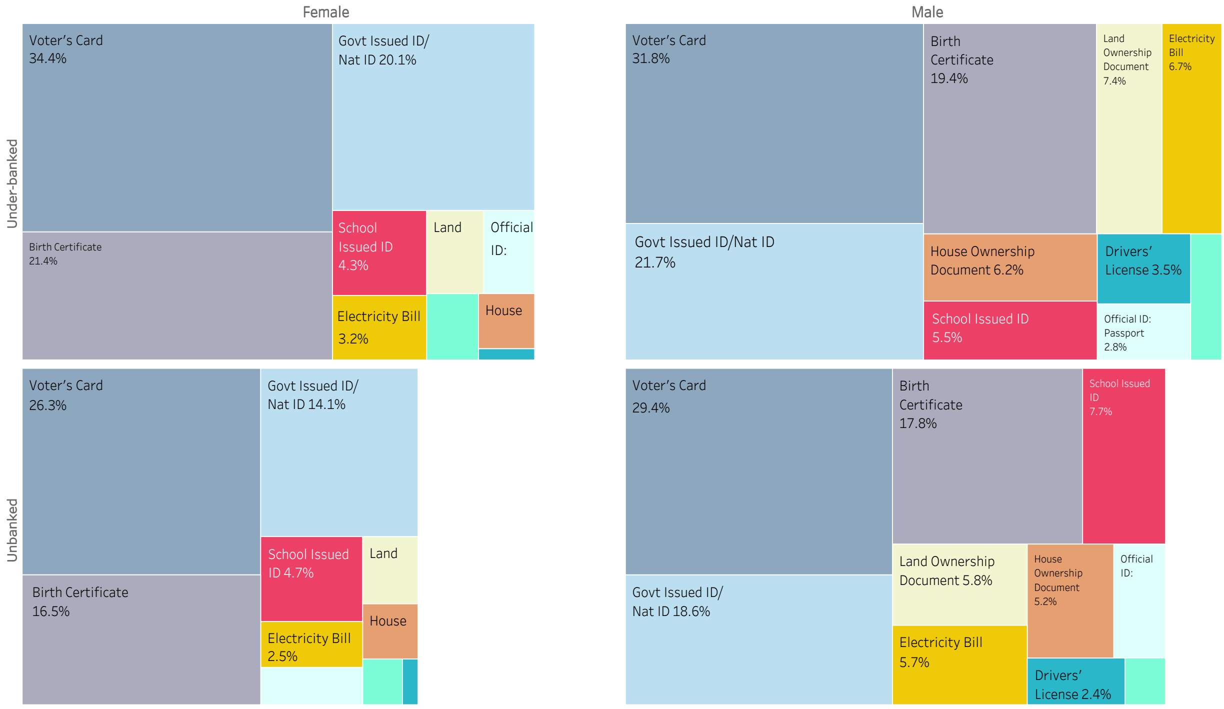
Consistent with the trending patterns, a more significant proportion of men have access to identification documentation, especially in the unbanked group (Figure 97, Figure 98, Figure 99).

Figure 97



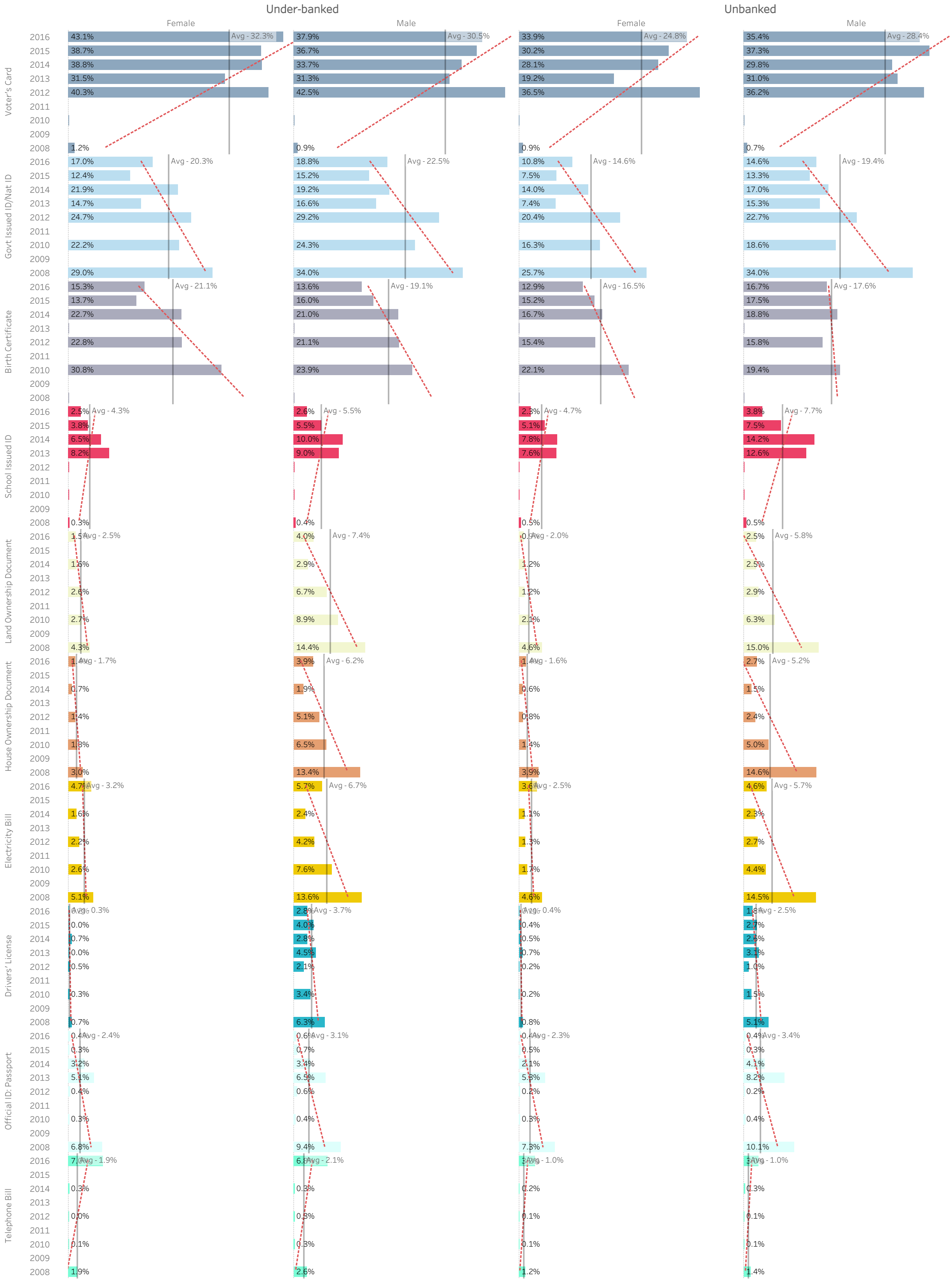
Identification assets strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

Figure 98



Top 10 identification assets treemap by gender (2008 - 2016)
Compiled by author with survey data from EFInA & Intermedia

Figure 99



Top 10 identification assets summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA & Intermedia

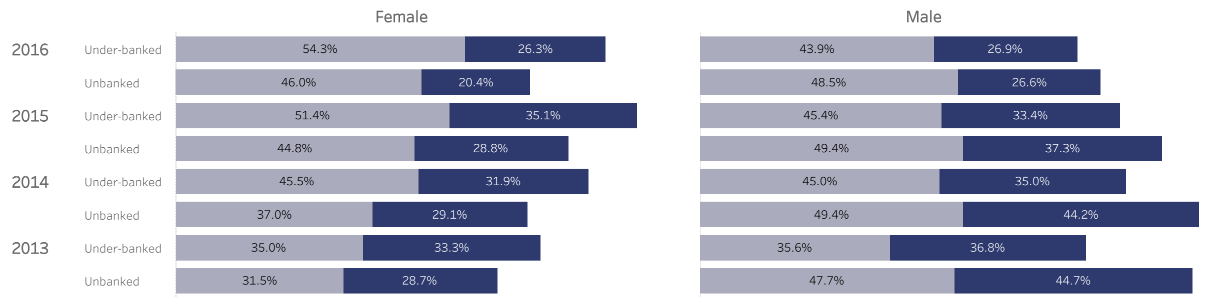
Competencies

> Women are just as literate and numerate as men, but unbanked females are more comfortable communicating in English and Hausa.

LITERACY

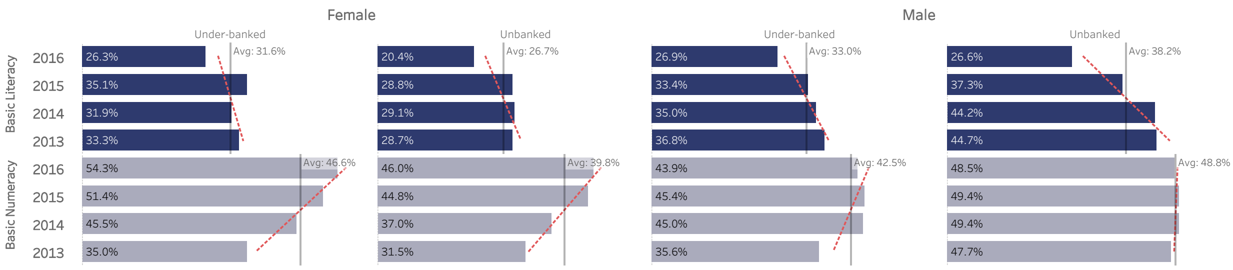
The 2015 national female illiteracy rates of 61.4 percent[8] which suggests higher literacy levels among men is somewhat apparent in the datasets (Figure 100, Figure 101).

Figure 100



Literacy level strands (2013 - 2016)
Compiled by author with survey data from Intermedia

Figure 101



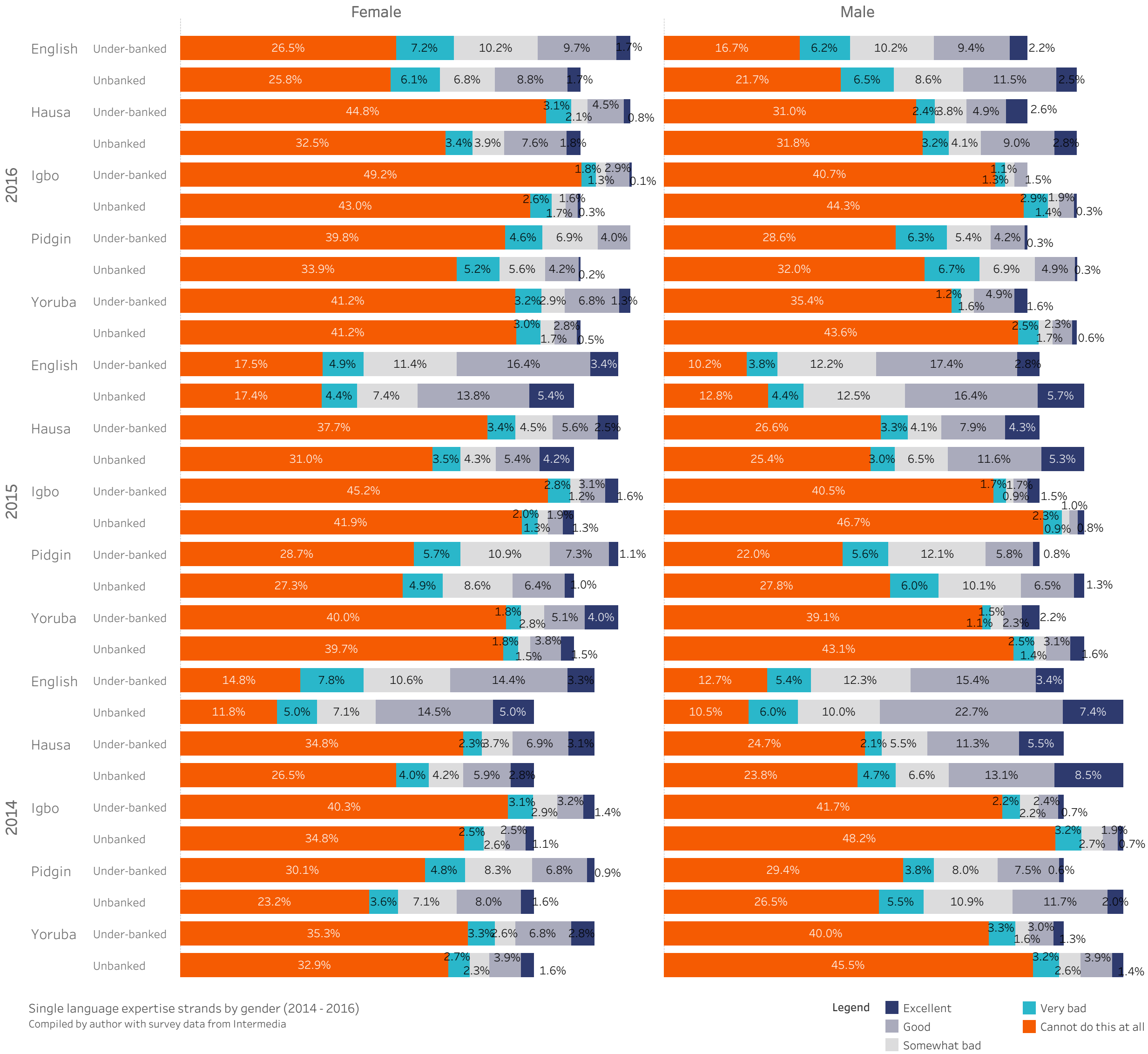
Literacy level summary analysis by gender (2013 - 2016)
Compiled by author with survey data from Intermedia

COMMUNICATION

The English language, Nigeria's lingua franca, is still the most widely spoken language, albeit with higher proficiency among males (Figure102, Figure 103). Of the indigenous Nigerian languages, proficiency levels of Hausa among the unbanked females are noteworthy and correspond to their domiciliation in the North West (Figure 104, Figure 105).

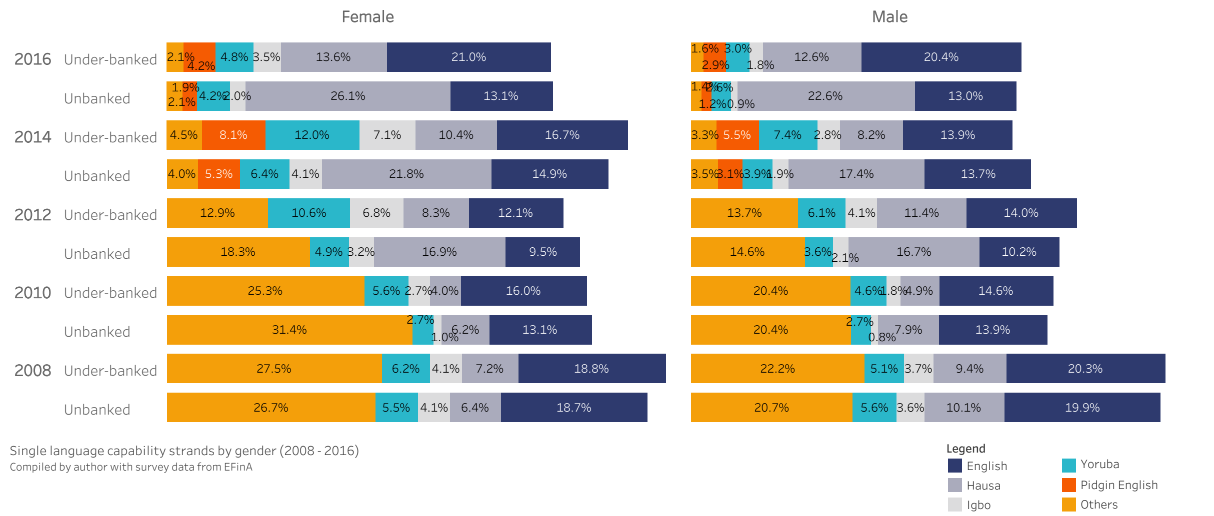
8 https://knoema.com/atlas/Nigeria/topics/Education/Literacy/Adult-literacy-rate

Figure 102



Single language expertise strands by gender (2014 - 2016)
Compiled by author with survey data from Intermedia

Figure 103

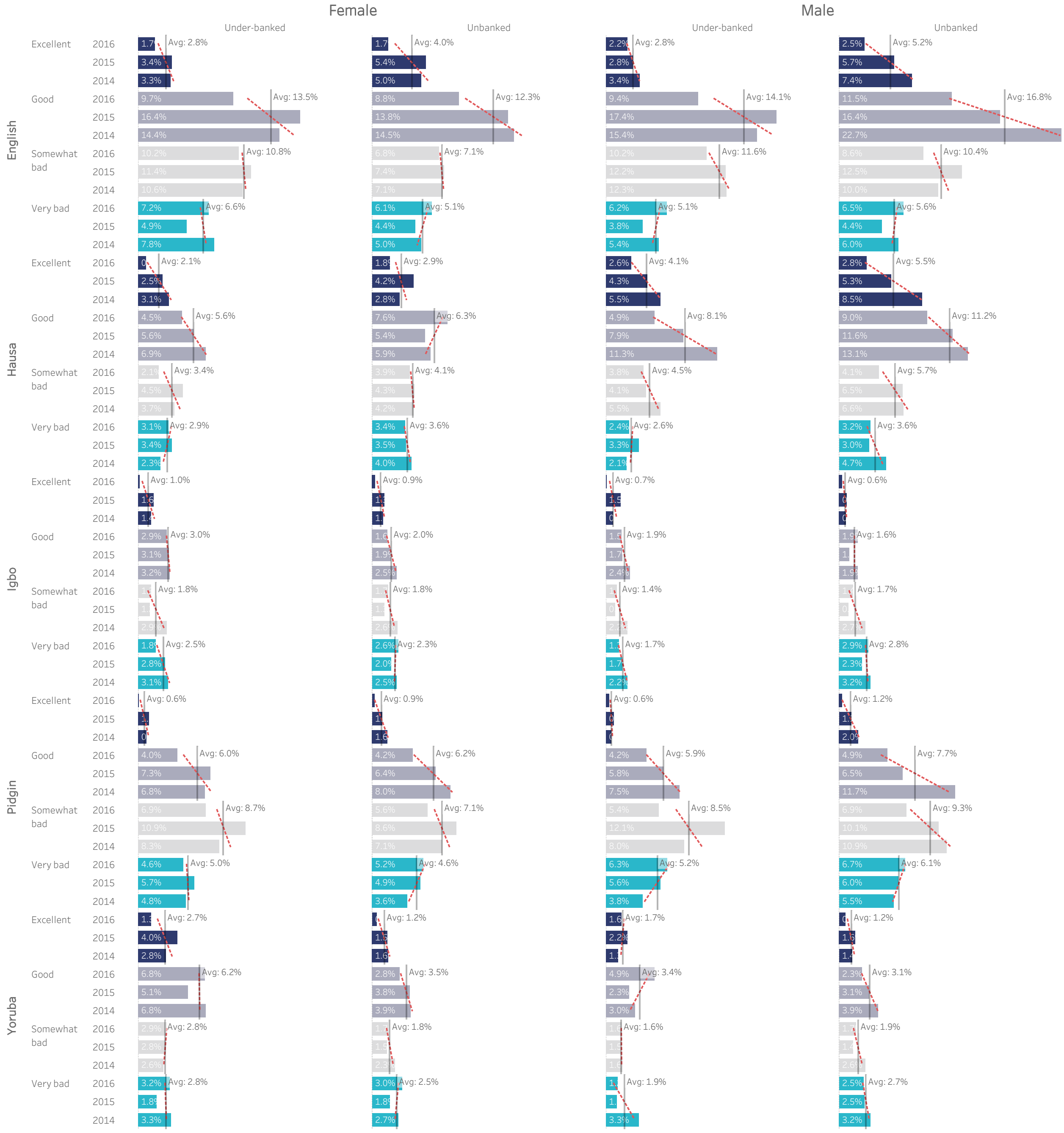


Single language capability strands by gender (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 104

Single language capability summary analysis by gender (2008 - 2016)
Compiled by author with survey data from EFinA

Figure 105

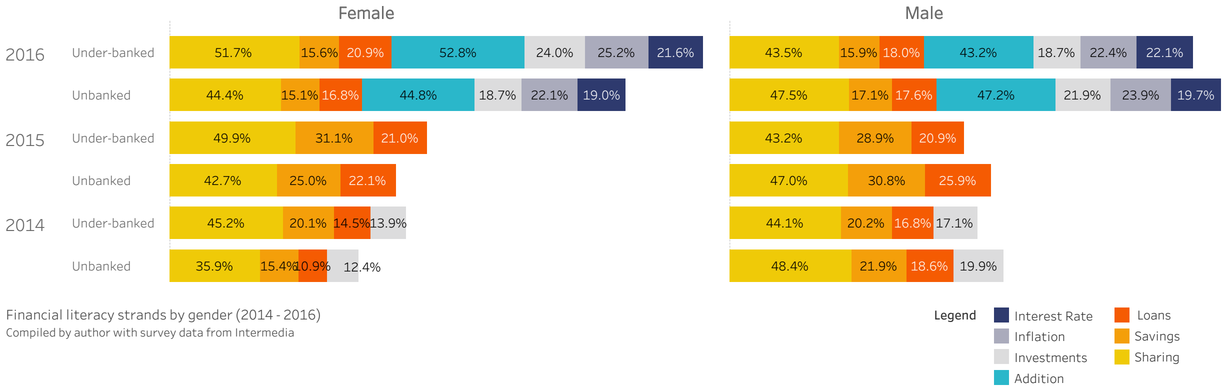


Single language expertise summary analysis by gender (2014 - 2016)
Compiled by author with survey data from Intermedia

FINANCIAL

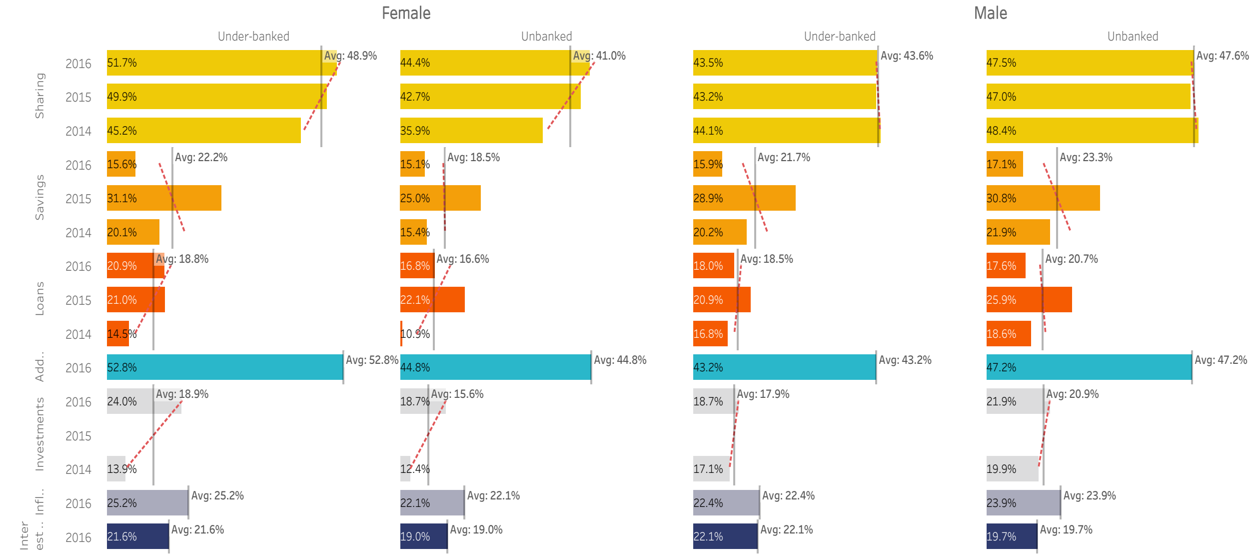
Even though females reported lower literacy levels, in most instances, their financial literacy capabilities surpassed that of the males (Figure 106, Figure 107).

Figure 106



Financial literacy strands by gender (2014 - 2016)
Compiled by author with survey data from Intermedia

Figure 107



Financial literacy summary analysis by gender (2014 - 2016)
Compiled by author with survey data from Intermedia

GENDER SUMMARY

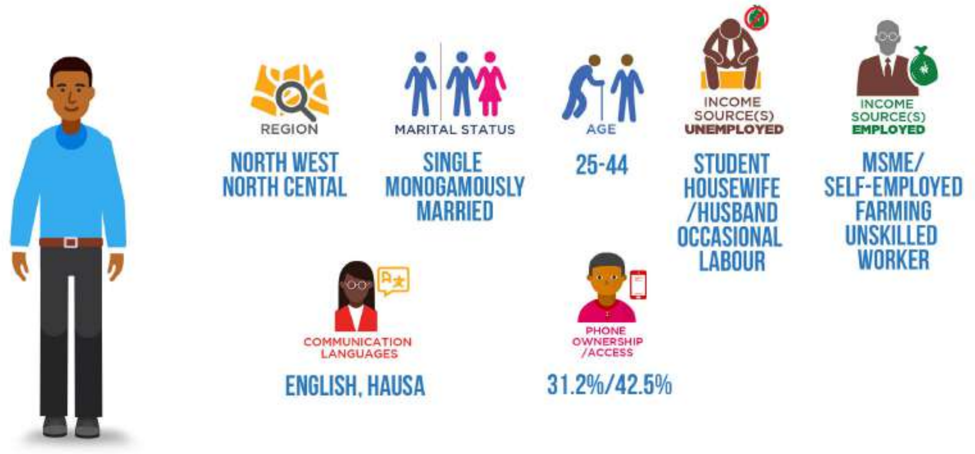
The gender financial inclusion gap is evident in rural locations in the North West, South West and North Central regions. While the households of 5 or more members live below the poverty line, individual income distribution spreads across all quintiles. Single, monogamously married and widowed women between the ages of 25 and 44 and over 65 are prime candidates for formal financial access. While women are equally or even better educated and literate (with primary and financial capabilities), their earnings, from economic activities such as ownership of MSMEs, farming and unskilled salaried work, are either inconsistent or relatively small. Women's ownership of or access to mobile devices is insufficient, signifying low digital access and probably low digital capabilities. The prevalence of women in the Northern and South West regions escalates the importance of Hausa and Yoruba languages.

Table 3

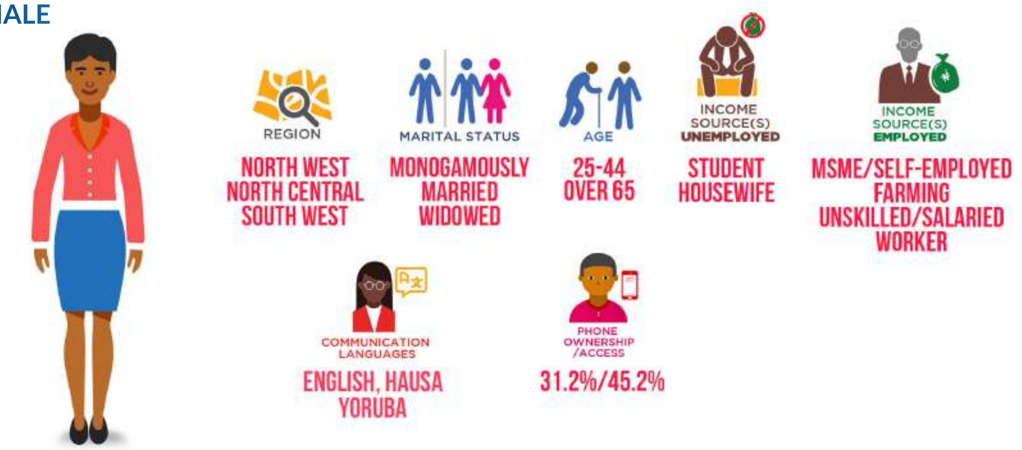
	Female		Male	
	Under-banked	Unbanked	Under-banked	Unbanked
Location	Rural	Rural	Rural	Rural
Region	North West North Central South West	North West	North West North Central	North West North Central North East
Household Size	4+	4+	4+	4+
Household Income Threshold	Below poverty line	Below poverty line	Below poverty line	Below poverty line
Gender	N/A			
Age	25 - 44 Over 65	15 - 44	25 - 44	15 - 34
Marital Status	Monogamously Married Widowed	Single Monogamously Married Widowed	Single Monogamously Married	Single Monogamously Married
Educational qualifications	Primary Secondary	No formal education Primary Secondary	Primary Secondary	No formal education Primary Secondary
Income Source(s): Employed	MSME/Self-employed Farming Unskilled/Salaried worker	MSME/Self-employed Farming Unskilled/Salaried worker	MSME/Self-employed Farming Unskilled worker	MSME/Self-employed Farming Unskilled worker
Income Source(s): Unemployed	Student Housewife	Student Housewife	Student Housewife/husband Occasional labour	Housewife/husband Occasional labour
Naira Earnings (Value)	N40,000 & below Uncertain	N40,000 & below Uncertain	N40,000 & below Uncertain	N40,000 & below Uncertain
Income Distribution Quintile	All	All	All	All
Digital Assets (Phone ownership/access)	No	No	No	No
Identification Document	Voter's card	Voter's card	Voter's card	Voter's card
Literacy/Numeracy Levels	Basic	Basic	Basic	Basic
Communication Languages	English Hausa Yoruba	English Hausa	English Hausa	English Hausa
Financial Literacy	Sharing Addition	Sharing Addition	Sharing Addition	Sharing Addition

Infographic 1: Gender profile of the under-banked

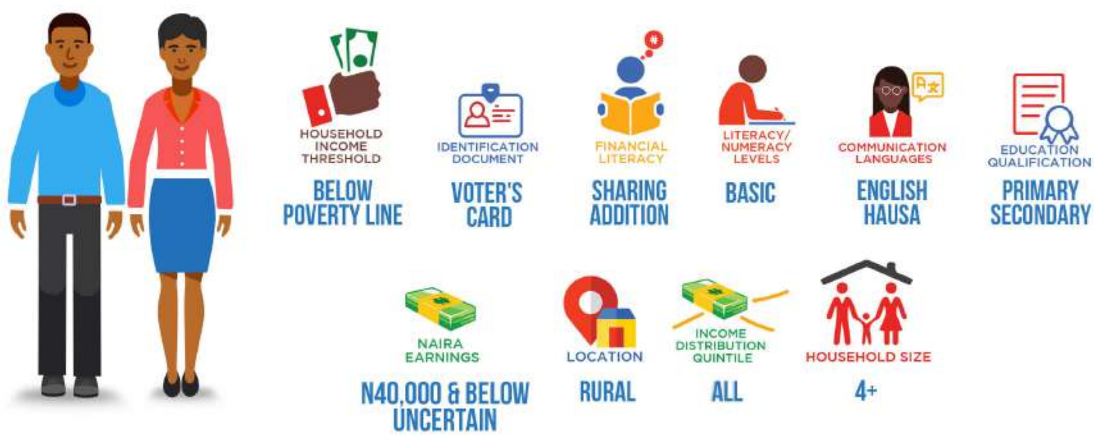
MALE



FEMALE



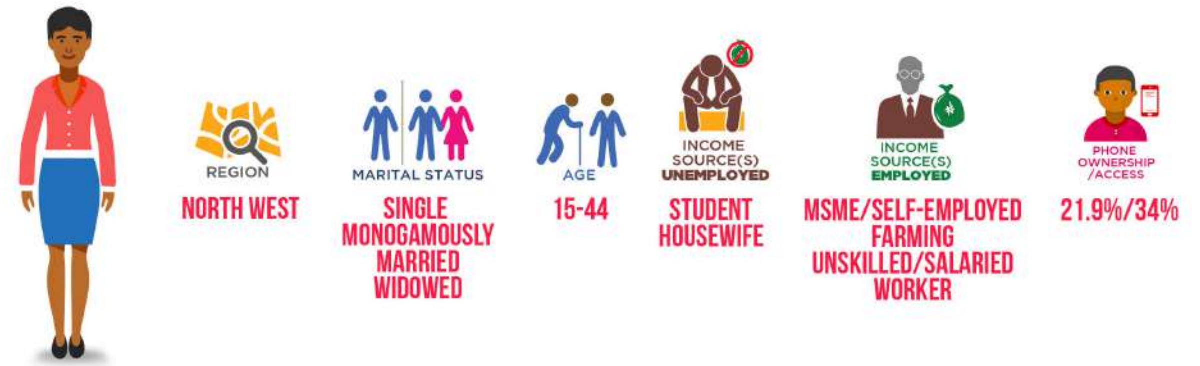
SIMILAR CHARACTERISTICS



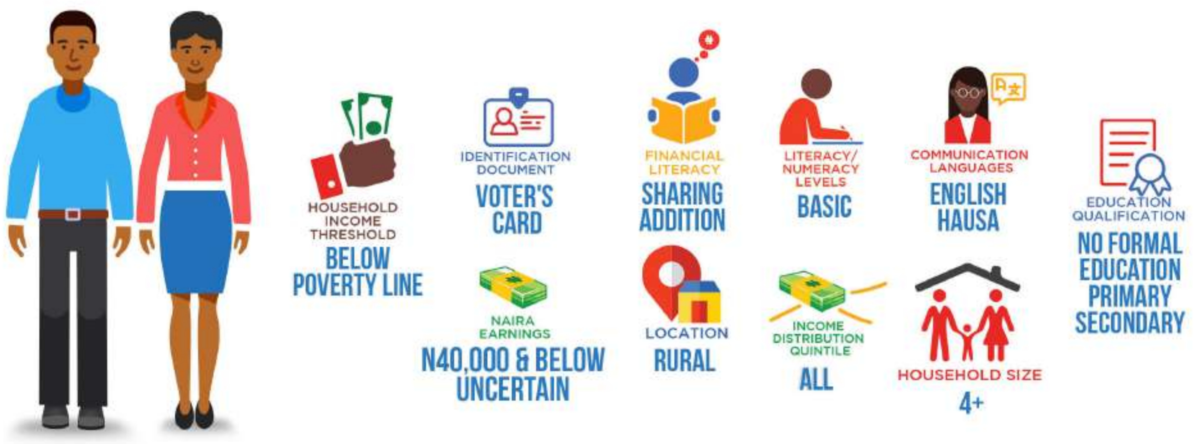
Infographic 2: Gender profile of the unbanked

MALE

FEMALE



SIMILAR CHARACTERISTICS



STATE OF THE MARKET REPORT

PART 3

POLICY EVALUATION

Policy Insights

The Law Relating to DFS

POLICY INSIGHTS

The solutions proposed for an enabling policy and regulatory environment for transformational DFS towards achieving financial inclusion emanate from an understanding of the underlying policy and legal frameworks.

POLICY EVALUATION

An evaluation of opinions and attitudes of ecosystem actors was conducted to identify relevant policy issues impacting DFS and financial inclusion advancement.

METHOD

The evaluation of DFS and financial inclusion policies was conducted across nine analytical dimensions:

- **Effectiveness:** the extent to which the policy statements articulate and reflect the intended objectives (intended effects) and how other counterproductive policies might impact the effectiveness of exisitng policy.
- **Effects:** the extent to which the policies have achieved additional impact - intended or unintended.
- **Efficiency:** the extent to which the processes and effort required to implement DFS and financial inclusion policies are cost effective.
- **Appropriateness:** the extent to which the policies are acceptable and uphold societal beliefs and values. This dimension also encompasses the scope of fairness and equity within the policies and legislation.
- **Feasibility:** the extent to which policy implementation is feasible as well as identification of critical institutional constraints. Feasibility sub-categories include:
- **Political:** the level of commitment demonstrated by the executive and legislative arms of government
- **Social:** the level of public support from consumers, private sector, civil society, etc.
- **Technical:** the technology requirements for successful policy implementation that ensure availability and reliability.
- **Institutional/Administrative:** the extent to which the responsible institutions are able to successfully implement the policies.

Various interactions and engagements with ecosystem actors provided sentiments and opinions of DFS and financial inclusion policies. First, in-depth interviews with C-level ecosystem executives, particularly DFS operators and super-agents, were followed by a survey administered to participants during an interactive dialogue on policy and regulation. Using closed and open-ended questions, opinions of the five policy evaluation criteria - effectiveness, effects, efficiency, appropriateness, feasibility - were addressed in the survey. The moderated discussion contributed additional rich detail, especially sentiments and emotions. An enumerator-administered survey provided agent perceptions on effectiveness and feasibility, assessing capabilities ecosystem members deploy in the creation and delivery of efficient mobile money services. Finally, consumer opinions, especially regarding the usefulness of DFS, were obtained from secondary data sources.

The survey instrument to elicit policy perspectives addressed the general understanding or knowledge of the policy objectives as well as the effects of financial inclusion and effectiveness. Various questions sought opinions on the spill effects of DFS policies relating to the unintended impacts, constraints and in some cases, counter-productive policies. Implementation costs incurred by government agencies and stakeholders provided efficiency feedback. Policy appropriateness evaluations appraised the articulation and framing of statements, equity and fairness and implementation successes. Finally, policy feasibility evaluations assessed technical feasibility and institutional factors - politics, culture, administrative structure/processes, law, etc.

Perceptions

OPERATOR VIEW

The policy analysis presented in the subsequent sections highlights stakeholder feedback on each evaluation criterion supported by verbatim quotations from the open-ended questions, moderated discussion and interview transcripts.

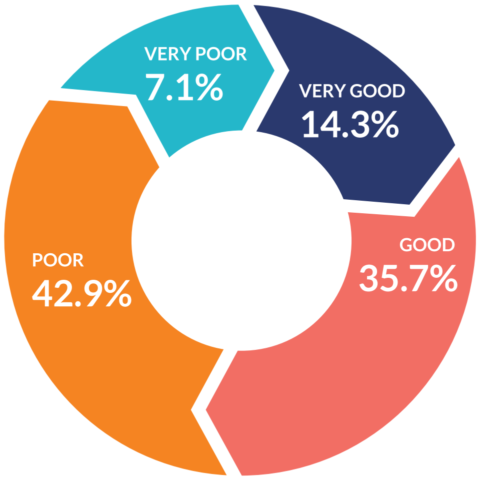
EFFECTIVENESS

Before evaluating the DFS and financial inclusion policies, we tested stakeholders' underlying knowledge of the policies and their broad objectives. Macro and micro sub-categories describe the extent to which policy objectives are known and understood. Macro-level objectives identified align with national objectives such as national development, financial inclusion and cashless goals. On the other hand, micro objectives provide benefits to firms, communities and households by facilitating access and reducing transaction costs.

More than half of the respondents felt the implementation instruments - policy statements and legal instruments were not sufficiently articulated because of inhibitors such as fragmented communication, lack of commercial understanding on the regulator's side and policy inconsistency (Figure 108).

Figure 108

Extent to which policy statements and legal instruments are articulate



For instance, some respondents highlight the inadequate policy articulation as a constraint in need of additional effort by the CBN.

> "The DFS policy is still not well spelt out. The CBN needs to go the extra mile to articulate this."

While others respondents highlighted the inadequate collaboration and synergies between the leading regulators for efficient DFS and financial inclusion - CBN and NCC, the lack of enabling incentives and articulation of service delivery standards were also noted.

> "Policy statements are confusing. There is no penalty for poor service delivery neither is there any compensation for the end user. Both the CBN and NCC seem not to be on the same page."

Given the nascent nature of DFS and the evolving nature of the market, regulatory interventions appeared to have chilled the orderly development of the market and to have stultified its efficiency and the effectiveness.

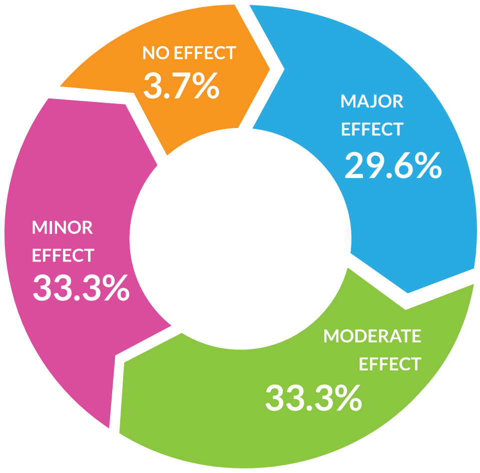
"The early involvement of regulators short-circuited innovation and did not allow for right fit service discovery that suits the market. All operators were constrained by policy guidelines. The policy has not been effective so far."

With specific reference to financial inclusion, the effects of DFS policy were mostly positive.

Respondents noted the impact of these policies on payment systems developments and innovations, improved customer attitudes towards digital and mobile financial services as well as improved business operations (Figure 109).

Additional efforts to deepen inclusion by increasing the level of consumer awareness of DFS in rural locations where general adoption is low are urgently required. Corroborating this viewpoint include:

Figure 109
Actual effect of policy and legislation on financial inclusion goals



"I don't think there has been any change at all. All the financial inclusion talk is all with the major cities and town. The real financially excluded people in the villages and market are still excluded."

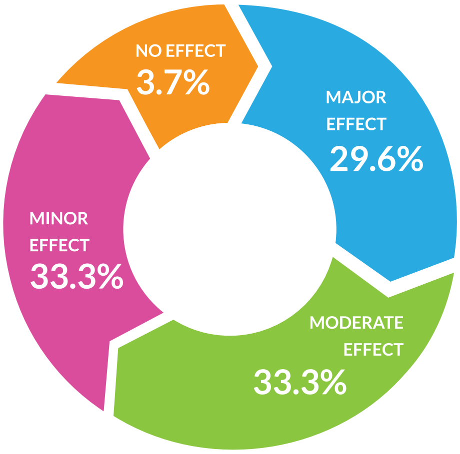
"Financial inclusion is still very low. Customer uptake is still lacking."

Also, operators expressed concerns that existing DFS services offered them only negligible incentives, comparable to just leaving their money in non-interest bearing accounts in the bank. This nominal inclusion status limits policy effectiveness. The limited availability and access to credit/lending products and sustainable business models strongly militate against support for DFS services, limit inclusion, thus ultimately challenging DFS continuity.

Other factors limiting financial inclusion are the lack of unified policy and enabling legislative frameworks, as well as the long gestation periods for market shaping or remedial policies and legislation, required for bringing about the desired impact.

The overall assessments of DFS policy effectiveness were that they were overall positive, albeit providing insufficient time for policies to gain traction and reach a critical mass of consumers (Figure 110).

Figure 110



Effectiveness of current DFS policy/legislation

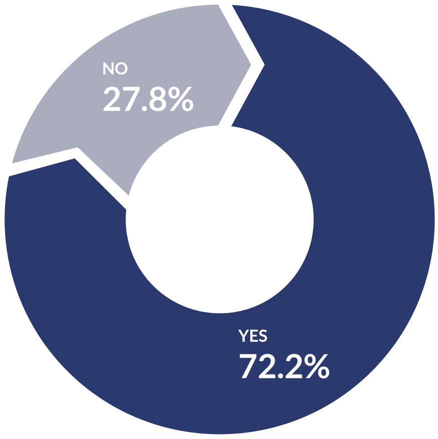
Unintended Effects

Table 5 presents perceptions of positive and negative unintended effects of DFS.

Table 5: Policy effects

Positive	Negative
Offers business diversification opportunities for mobile network operators (MNOs).	Increase in levels of fraud and criminal activities.
Stimulates collaboration between business entities within and across industries.	National financial inclusion targets still unmet.
Eases business transactions and transparency.	The framework for agents is in need of improvement to ensure adequate business flows and compensation, and maximise all business opportunity costs such as limiting the amount of e-value maintained by agents in anticipation of customer transactions.
Stimulates innovation and IT development.	High operational costs as a result of limited use (low adoption) and high fees/charges.
	MMO income streams limited to business operations, excluding them from interest income from pooled funds.
	Exposure of policy weaknesses, limitations and contradictions.

Figure 111
Extent to which policies, regulations or legislation are perceived as counterproductive



- The various policy inconsistencies are counterproductive (Figure 111). In particular:
- There is a duplication of identity management schemes - BVN (deposit money banks), SIM registration (Nigerian Communications Commission (NCC)), national identity number (NIN).
- BVN requirement for micro-credit inhibits adoption of DFS by the unbanked.
- Regulated price controls on customer tariffs and charges, earnings on pooled accounts in the case of licensed MMOs, as well as cash deposit and withdrawal charges (cashless policy) inhibit growth of the market
- Restricted roles for Telecommunication companies
- Current Telecommunication sector operating regulations and guidelines are not sufficiently aligned to support DFS development
- Multiple taxation practices lead to higher cost to serve numbers and higher consumer charges as well as limits DFS adoption
- Deposit and withdrawal limits of the cashless policy constrain DFS agent's liquidity and ability to conduct business

Respondents reiterated:

"Some policy objectives are counter-active, thereby militating and mitigating the growth and development of the sector."

"Mobile money agents should be exempted from the CBN policy on payment on deposit and withdrawals. This is counter-productive to the system."

"Tying BVN to micro-credit, card services without unified roadmap as it concerns FI products and credit bureau checks for this segment."

"The inability of MMOs to earn interest on the funds deposited in their pool accounts at partner banks."

Efficiency

In general, implementation of DFS policies and legislation has been satisfactory (Figure 112). However, to enhance implementation quality, some improvements were recommended.

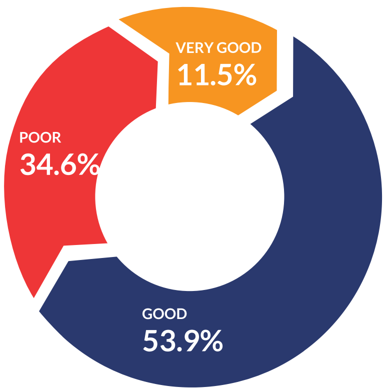
Improving institutional frameworks by eliminating policy incoherence and depth combined with role fragmentation or duplication amongst institutional actors.

Factoring contextual or environmental characteristics such as ethnicity, cultural and religious beliefs as well as structural differences in urban and rural settings, in the policy implementation process markedly enhances policy implementation.

Strengthening collaboration and incentive structures amongst value chain actors enhances their effectiveness.

Notwithstanding ongoing financial literacy interventions, illiteracy, inadequate infrastructure (power and network coverage) and poor consumer sensitisation have a significant impact on mobile money acceptance and awareness and must be redressed.

Figure 112
Implementation of DFS policies and legislation



Some views include:

"The implementation has not taken cultural and regional differences into consideration. Some regions also lack robust network/technological infrastructures that are required for DFS to be successful."

"Policies are not deep enough, low publicity, regulatory bodies keep going forth and back. Incentives for the value chain is low."

"Frequent changes in policies; some policies do not consider all stakeholders".

"There have been several policies and initiatives, but the implementation of these policies has been limited to the developed cities and towns."

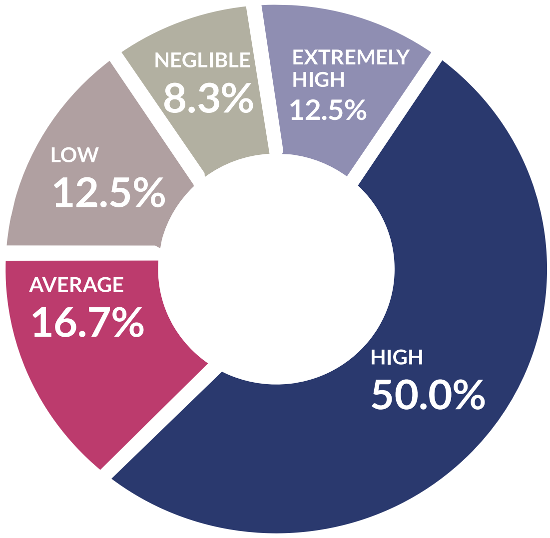
The perceptions of government expenditure on policy implementation indicate merger allocations. Almost two-thirds of the respondents perceived government spend as high, but yet inadequate for DFS operations, especially given national and sectoral infrastructure deficits.

"Policy implementation has pressed the CBN to deploy more resources to match capacity requirement for DFS regulation."

"Private institutions have had to bear the costs of implementation."

In all, inadequate levels of government spend questions their commitment to driving financial inclusion policy implementation (Figure 113).

Figure 113
Government Policy implementation spend



Conversely, the lack of sufficient government spend has transferred the investment burden to stakeholders who have had to bridge the infrastructure gaps, significantly increasing their cost areas (Figure 114). Thus, the burden of implementation on the stakeholders is, to some degree, perceived as exploitative. Of particular mention are the fixed fee and tariff structures, low adoption rates and limited government patronage and support. In reiterating stakeholder investment expenditure in policy implementation, some respondents noted:

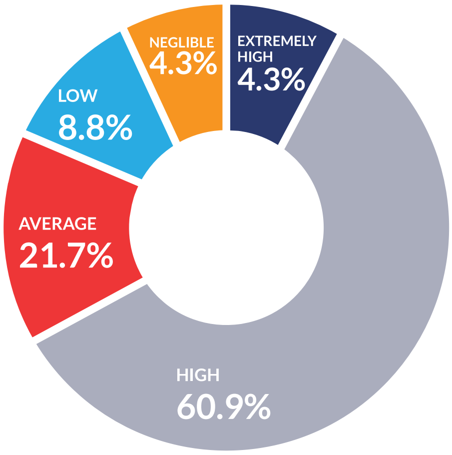
"The cost of technology and capacity building has been high. More so because the adoption by the market has been very low and the trust needed to be built in part by government agencies are not there."

"In some cases, there is a need for a change in technology or an upgrade in order to achieve implementation. Changes in technology are quite expensive".

"The implementation/execution costs have been largely borne by financial institutions."

"The cost of making financial inclusion work is quite high and requires support from regulators."

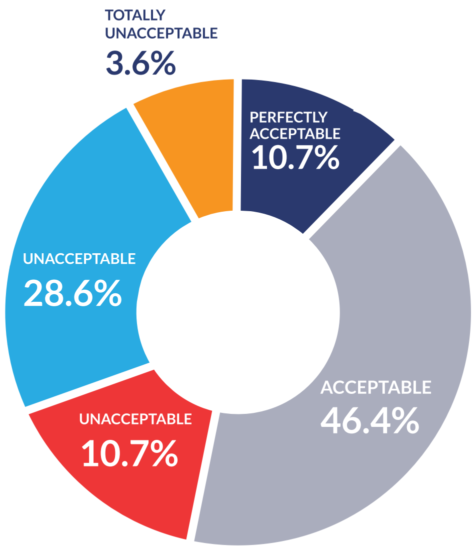
Figure 114
Stakeholder policy implementation spend



Appropriateness

As framed, respondents found the existing policies acceptable, especially given the overarching objective of reducing cash in circulation and increasing financial inclusion (Figure 115). Arguments supporting policy acceptability include the explicit definition of the under-banked and unbanked as the target market that provide a foundation for customer patronage as well as the tiered KYC policy. Acceptability augmentations through improvements such as clarity of implementation activities, the involvement of industry participants in regulatory processes (multi-stakeholder engagement) as well as improved institutional frameworks, and in particular, better collaboration between telecom and banking regulators. Other topical discussions include price regulation, market structure, and the range of allowable activities of mobile money operators (MMOs) as well as their ability to support financial inclusion goals. Early regulation of mobile money, as opposed to a delayed approach or adoption of alternative supervisory tools, have earned the sector the label of being "over-regulated" and hence unacceptable.

Figure 115
Policy appropriateness/acceptability as framed



Respondents with opposing viewpoints expressed the following:

"Nigeria market is different from Kenya and Portugal. No experience from those places can fully help. Hence, the system should be allowed to evolve first before regulators (step in). Banks are too regulated and risk-conscious to do well to drive the growth except more rooms are provided for flexibility."

"The requirements to be a mobile money operator are mainly rigid."

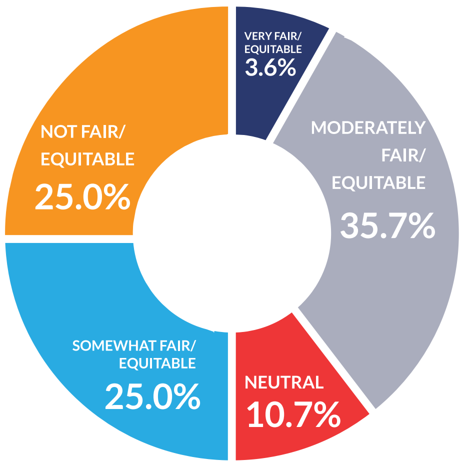
"I agree we need to reduce the amount of cash in circulation. It is also important to reach areas where the banks have no presence. It is critical to enable the poor have access to financial services such as payments, savings, loans and insurance, but I do not accept the approach"

"My concern is around the BVN for un(der)banked and services linked to availability of BVN. But policy around the 3 KYC tiers is most welcomed."

Policy appears sometimes biased in favour of select players perhaps as an unintended consequence of lack of clarity, policy inconsistencies, regulator co-operation and collaboration and low multi-stakeholder engagement (Figure 116).

Overlapping policies with conflicting goals such as the cashless withdrawal limits which conflicts with the liquidity needs of agents for cash-in cash-out (CICO) transactions appeared to suggest bias or insufficient correlation and thinking. In order to meet overarching policy goals of financial inclusion and minimise cash transactions, additional efforts to increase the number of agents and agency footprints are mandatory.

Figure 116
Policy fairness/equity



Excerpts from the respondents include:

"The policies barely get to the table of the Agents before been (being) regulated, just like the new CBN tariff that is about to be executed on deposit(s) and withdrawals, some exemption should be made."

"The recent CBN tariffs on deposit and withdrawals should exempt stakeholders as super agents and agents."

Feasibility

The critical institutional constraints negatively affecting the effectiveness of policies and legislation are either political, administrative or legal.

Political constraints, notably represented by lack of political will seems to be a fundamental challenge for effective DFS policy, especially since this encourages passive participation of government departments, agencies and regulators. Additional political effects that impact licensing and other regulatory processes are for example, issuance of licenses to unqualified or inexperienced operators.

The inclusion of MMOs and other non-bank actors in the financial services ecosystem has resulted in the licensing of over 20 operators, indicative of private sector support. Nonetheless, the level of activity and cash dominance of the informal economy overburdens deposit money banks with high cash management costs. Other constraints that produce friction in the ecosystem are the seemingly poor cooperation between banks and telcos as well as the distribution of policy activities across multiple regulators and licensing regimes. Nonetheless, a strong commitment by all actors to collaboratively address financial inclusion is required to effect it. The inadequate commitment of stakeholders to the attainment of financial inclusion goals, as well as lack of enhanced ecosystem *co-opetition* are constraints yet to be addressed by policy and legislation. Finally, the timeliness of regulation and co-operation amongst government agencies also constrain mobile money implementation. Table 6 summarises key constraints categorised by operators.

Table 6: Key institutional and social constraints

MMO Operator	Telco	Regulator	Consumer
• Implementation/ transaction costs • Customer acceptance/ adoption • Telco exploitation on connectivity fees • Policy induced threats to commercial viability limiting participation, especially for agents • Framework that encourages/promotes collaboration • Standardised charges without due consideration of true commercial and market costs • Restriction of non-bank MMOs earning interest from pooled account deposits impacts economics • Agent registration policy • Lack of BVN (identity) roadmap guiding financial inclusion creates a void on industry direction	Exclusion from direct participation Lack of acceptance of mobile airtime as a store of value and for payments	Regulator collaboration/ synergy Harmonisation of policies and guidelines to limit contradictions and ambiguity	KYC policies limiting transaction values restrictive to some intended DFS customers such as cash-rich market women

The seeming lack of coordination and cooperation of governmental agencies has encouraged proposals for the designation of a common regulator for the market.

Respondents also reported other constraints:

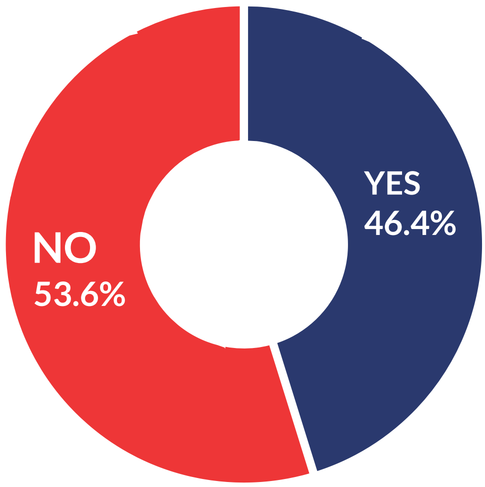
"The cost of making financial inclusion work is quite high and requires support from regulators."

"High transaction costs, non-conversion of airtime to money."

"Requirements for agent registration, limit of transactions, security challenges on the part of agent fund management."

Regarding the technical aspects of DFS, respondents were of the opinion that DFS and financial inclusion policy are not technically feasible (Figure 117) due to inadequate multi-stakeholder engagement, especially to drive the last mile access, misalignments between existing policies like bank verification number (BVN) and know your customer (KYC).

Figure 117
Technical feasibility perceptions



The timeliness of regulations is also another limiting factor where some respondents believe that some levels of regulatory forbearance are appropriate to test and evaluate the performance of new DFS innovations before regulation.

Furthermore, respondents also noted contextual and other factors impeding technical feasibility,

"The policies must take the unique Nigerian environment into consideration, most especially the technology infrastructure available."

"There should be inclusion initiatives to involve rural and remote locations. Also, there is the need for education strategies to create awareness and demonstrate the benefits of access to financial services."

"Most of the challenges encountered by the DFS players (stakeholders) is the issue of profitability. Hence, many avoid rural areas and ultimately the main market and the unbanked people who need to be included for DFS strategy to be successful."

The explicit exclusion of telecommunications companies (telcos) from direct extension of DFS services inhibits the achievement of the financial inclusion objectives. Furthermore, the pecuniary and non-pecuniary costs associated with DFS adoption and use incentivises the use of cash. The policy meta-model design is more suited to the urban mindset and does not explicitly address rural conditions and infrastructure. Hence, it ends up favouring operator concentration in urban areas with lower cost structures.

Reform Suggestions

Respondents of the various interactions were quite generous in proposing policy and legislation reform suggestions.

Observations regarding policy and regulatory process activities in need of improvement were noted. These include:

- Reduce the time and effort associated with policy and regulatory actions such as licensing
- Generate evidence-based policies and regulations that genuinely reflect and meet the needs of the constituents
- Conceptualize implementation strategies and evaluation frameworks alongside policies
- Relax conditions, primarily relating to KYC and agency banking
- Revisit fees (prices), the lack of consideration of market prices and cost-to-serve jeopardise policy sustainability, especially for much-needed agents whose role is to provide the last mile over the counter (OTC) financial services to the under-banked and unbanked.
- Review credit bureau practices and microfinance bank (MFB) licensing requirements
- Explore alternate licensing models such as regional licenses for agency banking, MMOs providing a full suite of essential financial services, not just payments, but also offering savings and credit products.
- Leverage existing license approvals to enable additional financial services licenses applications. For example, deposit money banks desirous of establishing microfinance banks are required to commence licensing procedures without any recourse to an existing banking license. Supplemental licenses could ride on existing licenses
- Allow participation of telcos as key actors of DFS given the widespread availability of airtime and established distribution networks.
- Improved collaboration and cooperation among financial services providers (FSPs) and between FSPs and telcos
- Consider airtime as a store of value
- Establish a unified body to oversee government agencies and regulators and enhance inter-governmental agency collaboration.

Finally, there were recommendations for a review of the policy environment, especially as it relates to the development and optimisation of industry value chains. Such a systemic approach will streamline the number of intermediaries and value exchanges as well as reduce and minimise transaction costs.

Legislation or legal reforms proposed suggest improvements in the business environment or context as follows:

- Harmonize DFS laws, policies and regulations to reduce overlaps
- Grant DFS industry market development incentives such as pioneer status and tax rebates for infrastructure investments on the supply-side as well as enhance demand-side education - literacy, both financial and digital
- Promote interoperability of services, operators and agents
- Enforce policies and implement guidelines

Other suggested reforms worthy of mention include the development of a regulatory environment that fosters collaboration, equity and fairness amongst players as well as multi-stakeholder or consultative policy formulation processes.

- The various reform proposals discussed in previous sections would be ineffective without complementary implementation recommendations. These include adherence to the policy formulation process and all the activities such as policy dissemination plans combined with prompt and timely revisions and implementations. In particular, periodic reviews of standardised fees, charges and interchange arrangements as well as the ensuring of seamless interactions between financial services and telecommunications regulators. Additional implementation gaps specific to existing policies and regulations include:

  i. Consequence management systems with defined penalties for defaulters are currently either lacking or ambiguous
  ii. A roadmap for the widespread acceptability and deployment of the industry identity management system, BVN, for the under-banked and unbanked

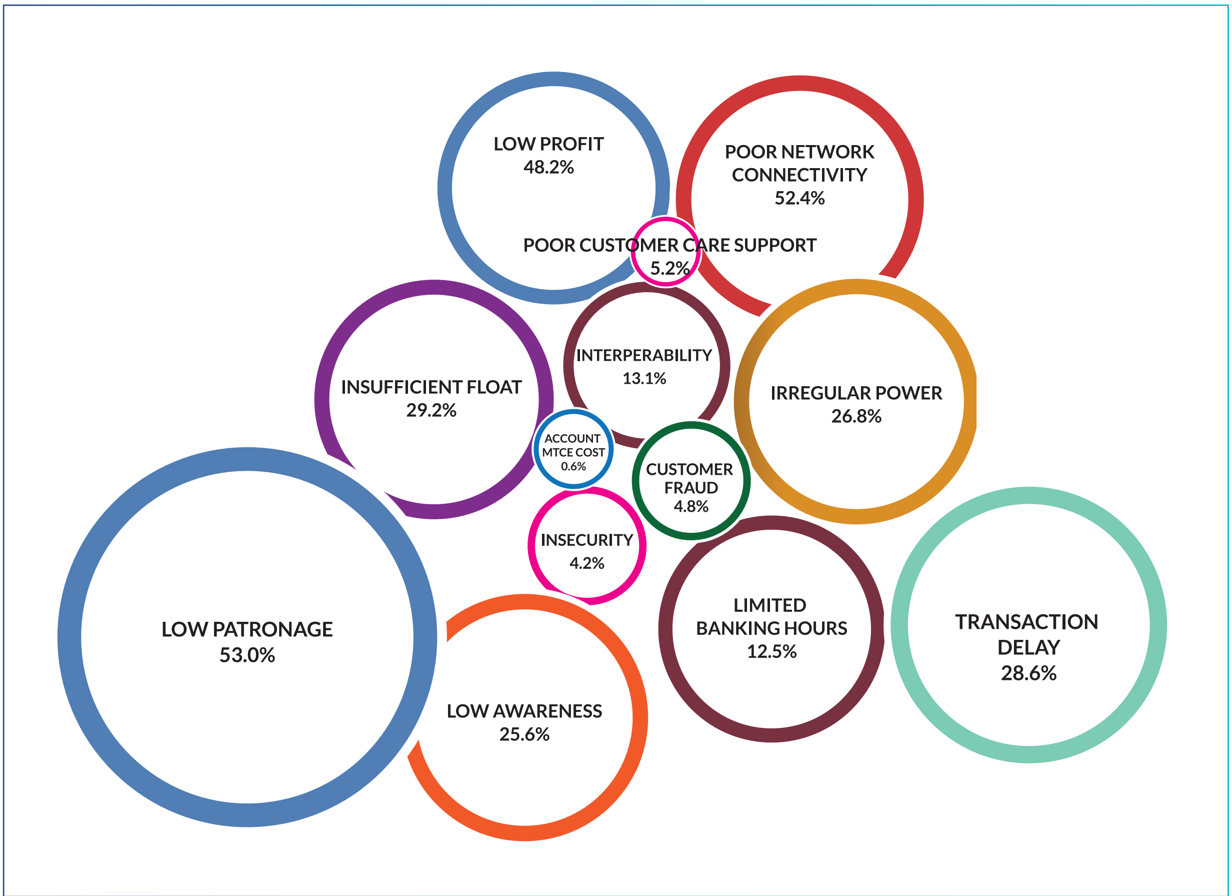
An analysis of consumer responses, especially adoption and utility, in the 2016 EFInA access to finance (A2F) survey[9] reveals insights relating to policy efficiency, appropriateness and feasibility amongst the under-banked and unbanked populations. Low consumer awareness of agents (30 percent) and mobile money (4 percent), as well as low utility rates amongst the under-banked (10 percent) and unbanked (17 percent), are indicative of low public support (social feasibility) to boost DFS knowledge, adoption and impact financial inclusion. Also, ineffective communication of complaints resolution policies and approaches also limit DFS implementation feasibility, where one-third of the respondents are oblivious of secondary support locations and processes that address unresolved mobile money service or agent problems. Technically, unavailability of reliable infrastructure and access points threaten DFS implementation success. Factors enabling DFS suitability vary by product. In the case of informal savings, suitability factors include ease of use, proximity, convenient and quick access to savings while domestic remittance suitability factors include prompt service, reliability, trust and ease of use.

Agent View

The sub-agent perspective on the operational aspects of DFS and financial inclusion provides useful policy insights. The most notable benefits of DFS - convenience and ease of transacting - combined with satisfaction factors - speed and functionality - associated with the effectiveness criterion. Efficiency insights, drawn from questions relating to transaction costs, indicate that low-profit margins significantly impede agent sustainability. Assertions on DFS suitability (appropriateness) from questions on usage patterns show that agent trust and availability complement the use of DFS. Finally, feasibility perspectives drawn from constraints highlight the range of technical and social factors limiting DFS implementations and financial inclusion. As illustrated in Figure 118, these include interoperability, communications and systems infrastructure resulting in transaction delays.

9 Enhancing Financial Innovation & Access (EFInA). (2017). Key Findings: EFInA Access to Financial Services in Nigeria 2016 Survey. Lagos: EFInA

Figure 118



Mobile money operational constraints (agent perspective)
Source: complied by author

Summary

The policy heat map summarises the policy evaluation from the various stakeholder groups (Figure 119). The heat map reveals that notwithstanding the inherent benefits of mobile money and DFS solutions, the absence of a conducive policy environment can potentially impede the attainment of financial inclusion objectives.

Figure 119

	Supply-side Operator	Supply-side Agent	Demand-side Consumer
Effectiveness			–
Effects		--	
Efficiency			
Appropriateness			
Feasibility			

In sum, the evidence suggests that the main challenges (policy issues) associated with the delivery of DFS to lower income unbanked Nigerians include:

- **Infrastructure:** availability and access to reliable infrastructure (power, communications, roads, security, etc.)
- **Last mile distribution:** availability and access to financial service points at the last mile
- **Know-Your-Customer (KYC):** availability of KYC levels that are appropriate to the consumer needs
- **Identity management:** availability of a standardised global, national identity management framework and system
- **Interoperability:** facilitating inter-scheme transactions
- **Competition:** frameworks that promote and enhance competition amongst stakeholders
- **Collaboration:** frameworks that promote and enhance collaboration amongst stakeholders, including regulatory agencies
- **Consumer protection:** trust-building frameworks and practices that protect the interests of consumers
- **Business environment:** a conducive business environment that promotes sustainable DFS business activities
- **Consumer education:** frameworks, processes and activities to enhance consumer awareness and literacy, including financial and digital literacy

Also, issues relating to policy development/ formulation processes impact the policy environment. Such concerns include lack of multi-stakeholder participation, the language ambiguity that leads to poor interpretation, limited communication/ dissemination, top-down design, weak monitoring and evaluation and irregular policy/reviews. Thus, adopting the following activities in the policy development lifecycle are recommended:

- **Problem identification:** definition of specific and evidence-based problem statements.
- **Design:** a multi-stakeholder design process.
- **Communication:** inclusion of a communication/ dissemination strategy for each affected stakeholder group.
- **Monitoring and evaluation:** having defined key performance indicators, result-oriented policy monitoring and evaluation.
- **Policy review:** periodic review/assessment of policies to guard against obsolescence.

Alongside these themes are the summary sails and anchors (Table 7) of DFS and financial inclusion.

Table 7: Policy sails and anchors

Sails (Enablers)	Anchors (Constraints)
Flexible/evolutionary/regulatory processes	Regulatory and bureaucratic burden
Market need of DFS	Outdated policies and regulations
Political will and government commitment/involvement/ participation	Limited supervisory capacity across DFS regulators inhibits openness to innovative methods
Award innovative enterprises pioneer status with tax relief over incubation period	Restrictive - definitional regulatory approach. However, DFS providers cross activity boundaries and are working across various licensing regimes. A more functional approach is required
Market-based pricing structure	Inconsistent, uncoordinated changes inhibit industry strategic planning and objective setting
Effective institutional framework fostering Inter-agency co-operation & collaboration	Limited regulatory toolkit - licensing most favoured due to failures of other methods such as self-regulation
DFS potential to limit corruption and prevent fraud	Over-regulation: pricing, operating models, agent registration due to self-regulation failures
	Expensive - extensive outgoings on agent/staff capacity building, technology and infrastructure development, etc.
	Inconsistent Political will/government commitment/involvement/participation
	Ineffective collaboration and consultation in policy development process
	Insufficient consumer awareness of financial inclusion policies, products and processes - especially in rural areas
	Limited government use of DFS and financial inclusion products
	Perception of financial inclusion as micro activity and limited to financial system without reference to macro- and developmental implications
	Policy ambiguity: differentiating intent vs letter of the law
	Ineffective guidelines on financial service points (FSPs) due to commercial viability
	Customer advocacy of regulatory processes not widespread
	Competitiveness regulation rules unclear

The analysis of relevant legislation, policies, regulatory guidelines and case law guiding the establishment, operation and regulation of DFS providers and promotion of financial inclusion was conducted to understand the legal framework for DFS.

THE LAW RELATING TO DFS

THE NIGERIAN LEGAL ENVIRONMENT

The Nigerian legal system in Nigeria stems from the English Common law. The statutory hierarchy commences with The Constitution followed by federal statutes (i.e. Acts of the National Assembly) and their subsidiary legislation; state legislation (Laws of the State Houses of Assembly) and subsidiary legislation as well as local government by-laws and related judicial precedents, in that order. The related judicial precedents (also referred to as case law) are authoritative and binding decisions of the court that are observed in the interpretation of new cases. Lower courts are also bound to follow those decisions in latter cases before them.

METHOD

This legal analysis of DFS and financial inclusion evaluated constitutional provisions, legislation, policies, regulations and case law relevant to operating DFS business and financial inclusion.[10] Desk research and doctrinal review were the research methodologies adopted. Comparative law in select Common Law countries - Kenya, India, Bangladesh and Ghana were also considered.

SUBSTANTIVE LAWS, RULES AND REGULATIONS

Appendix I lists the substantive laws, rules and regulations from Federal and State legislation, as well as policies and guidelines of the various regulators and government agencies overseeing financial services, information and communications technology (ICT) and financial crimes.

DFS LEGAL FRAMEWORK

The Constitution of the Federal Republic of Nigeria is the supreme law from which all other laws derive their validity. The Constitution provides the basis for which all legal entities operate in Nigeria. Specifically, section 16 provides that the State (Nigeria) shall ensure that its policies are directed towards planned and balanced economic development; a clear direction for the inclusive policies propagated by DFS legal and regulatory frameworks.

The general legal framework of DFS law is presented in three parts. The first part introduces relevant general business laws. The second part describes the broad legal framework of for the financial and ICT sectors. The final part presents key DFS policy statements, guidelines and regulations.

GENERAL BUSINESS LAWS

The Corporate and Allied Matters Act (CAMA) is the legislation governing the formation, operation, supervision and regulation of companies, incorporated trustees and sole proprietorships. The Corporate Affairs Commission (CAC) is responsible for registration and general supervision of Nigerian companies.

10 The policy implementation instruments evaluated - legislation, policies, regulations and case law relevant to operating DFS business and financial inclusion are outlined in Appendix A.

In regulated industries, participants require operating licenses from the industry regulator in order to participate in the industry and often have to be incorporated entities. The Bank and Other Financial Institutions (Amendment) Act requires incorporation with the CAC compulsory for any entity seeking to provide banking business or financial services, including DFS business in Nigeria.

Section 20(4) of CAMA, permits the participation of aliens or foreign companies in the formation of a company and in business with liberal foreign investment protection, repatriation of income and capital assurances as well as incentives in Nigeria as provided by the Nigerian Investment Promotion Commission (NIPC).[11]

Incorporation requirements in Kenya, Mauritius and Bangladesh are similar to that in Nigerian law. Under Kenyan law, in addition to the incorporation of the business, the DFS entity must also apply to the Central Bank of Kenya (CBK) for approval-in-principle (AIP) of the proposed name. In Mauritius, incorporation of DFS companies is encouraged, due to the numerous tax advantages available to such organisations. In Bangladesh which operates a bank-led DFS environment, only licensed commercial banks or their surrogates are permitted to offer DFS.

CONTRACT LAW

Much of the law on DFS transactions and relationships are governed by contract law. This may be oral, written or by conduct and the usual principles of contract law apply. These include: “mutuality” or the “meeting of the minds” between parties, an offer, intention to create a legally binding relationship, acceptance, and consideration.

It is important to note that that Section 84 of the Evidence Act of 2011 allows the admissibility of computer-generated evidence in legal proceedings. This is particularly relevant to DFS, as most transactions are made over the internet and involve digital documentation. The Electronic Transactions Bill, recently passed by the Senate is meant to facilitate electronic transactions such as DFS, in Nigeria and to place them on par with contracts concluded by non-electronic media.

Kenya and Bangladesh have similar English common law principles of contract. French law inspires the law of contract in Mauritius; however, Mauritian law similarly recognises the validity of contracts as under the English common law. Mauritius, Kenya and Bangladesh all have legislation analogous to the Nigerian Electronic Transactions Bill.

LICENSING PROVISIONS

Banks and Other Financial Institutions

The application for operating licenses required for the provision of financial services, digital or otherwise, is dependent on the extent of involvement within the value chain. Hence, depending on the services provided, the licensing requirements can range from simple regulatory compliance to be kept active throughout service provision period to statutory licenses mandatorily required before the commencement of business operations. The subsequent sections introduce licensing requirements and financial services regulatory authorities.

The Central Bank of Nigeria (“CBN”) established by the Central Bank of Nigeria Act Laws of the Federation 2004, is the body responsible for the regulation of financial services in Nigeria, DFS inclusive. CBN has issued several guidelines for the development of DFS and other electronic channels within the banking system. The CBN is also responsible for determining a suitable mechanism for the exchange rate of the Naira and for payment systems.

11 This is an administrative practice and procedure promoted by the ministry of interior and the NIPC.

The Bank and Other Financial Institutions (BOFI) Act empowers CBN to license and regulate banks and other financial service providers, including non-bank entities, corporate or unincorporated, such as discount houses, finance companies, money brokerage, financial consultancy, pension fund management and such other business.

Section 2 of BOFIA states that no person shall carry on any banking business[12] except it is a company duly incorporated in Nigeria and holds a valid banking license. CBN also regulates the provision of microfinance services by virtue of Section 28 of the Central Bank of Nigeria Act and the 2005 Microfinance Policy, Regulatory and Supervisory Framework for Nigeria that specifies the requirements for licensing and operating a microfinance bank.

The National Deposit Insurance Commission (NDIC), established by the NDIC Act provides a deposit insurance system and oversight over the operations of banks and financial institutions within Nigeria. NDIC protects customer deposits and provides insurance for deposited sums in financial institutions.

Some relevant instruments for the licensing and operation of operators in the DS industry are highlighted in (Table 8).

Table 8

Activity	Relevant Law	Summary of the Provision and Relevance
Provision of mobile money services	CBN Guidelines on Mobile Money Services in Nigeria	The CBN licenses Mobile Money Operators (MMOs). Before commencing operations, MMOs require a unique scheme code and shortcode issued by the Nigeria Inter-Bank Settlement System (NIBSS) and NCC respectively.
Provision of international mobile money services	CBN Guidelines on International Mobile Money Remittance Service in Nigeria	Applicants must have a net worth[13] of US$1 billion, have a valid MMO license and must operate in at least 20 countries with at least ten (10) years track record. This seems almost to preclude domestic companies from participation.
Provision of electronic funds transfer, switching, and processing services	CBN Guidelines on Transaction Switching in Nigeria	The guidelines require all switching companies to first apply and obtain switching licences in the form prescribed by the CBN.
Processing of electronic payment transactions	CBN Guidelines for The Direct Debit Scheme and Bill Payments in Nigeria	The guidelines have a requirement that a Payments Service Provider (PSP) must first obtains a license from the CBN before commencing services of processing electronic payment transactions.
Engaging in agent banking	CBN Guidelines for the regulation of Agent Banking and Agent Banking Relationships in Nigeria	In addition to the requirement of the principal being a licensed financial institution, the principal is also required by the guidelines to apply for an agent banking license before the operations.
Operation as Super-Agent	CBN Framework for the Licensing of Super-Agent in Nigeria	Super-agents are required to first apply and obtain a license from CBN to operate as such.

12 The business of receiving deposits or current account, savings account or other similar account, paying or collecting cheque drawn by or paid in by customers; provision of finance or such other business as the Governor may, by order published in the Gazette, designate a banking business

13 Based on the latest audited financial statements, or as may be determined by the CBN from time to time.

Operation as Micro Finance Bank	CBN 2005 Microfinance Policy, Regulatory and Supervisory Framework for Nigeria	In addition to the registration requirement, the name at incorporation should include "Microfinance Bank."
Operating a Bureaux De Change Company	CBN Revised Operational Guideline for Bureaux De Change, 2016	Such persons must undertake a small-scale foreign exchange business in Nigeria on a stand-alone basis.
Operating a Credit Bureau	CBN Guidelines for the Licensing, Operations, And Regulation Of Credit Bureaus in Nigeria	The guidelines provide that no individual or a group shall operate a credit bureau in Nigeria unless licensed to do so by the CBN. Issuance of the licence is in three stages; Receipt and appraisal of Application; Issuance of Approval-in-Principle (AIP); Issuance of Final Operating License.

The Capital Market, Insurance and Pensions

The Securities and Exchange Commission (SEC) regulates the Nigerian capital market under section 13 of the Investment and Securities Act (ISA), 2007. Section 28 of the Act provides that no securities exchange or capital trade point shall commence operations unless registered with the Commission by the provisions of the Act, and the rules and regulations made thereunder. The Insurance Act and regulatory oversight by the National Insurance Commission (NAICOM) guide operators in the insurance sector. By virtue of Section 4(1) of the Act, no insurer shall commence any insurance business in Nigeria unless registered by the Commission under the Act.

The Pensions Reform Act 2014 regulates the pensions industry in Nigeria and mandates the National Pensions Commission (PENCOM) to issue operational licenses and to regulate the pensions industry.

Communications

Telecommunications is essential for electronic and DFS transactions. DFS providers within the communications sector are required to comply with the provisions of the Nigerian Communications Act. Section 4 of the Act establishes the Nigerian Communication Commission (NCC) to license telecommunication operators;[14] ensure competition and prevent unfair pricing within the market. NCC has discretionary authority to determine and publish a list of communications services that would not require licensing under Section 32 (2) of the NCC Act.

The NCC License Framework for Value Added Services (VAS) requires VAS providers to obtain licences from the NCC. VAS licences are valid for five years and renewable upon expiration.

The National Lottery Act of 2005 established the National Lottery Regulatory Commission (NLRC). The Commission regulates the operations of lottery businesses, promotes transparency and accountability; while protecting the interests of players, stakeholders and the general public.

State laws regulate moneylending operations. Each state has detailed processes for operating as a moneylender, including the requirements to obtain a moneylenders certificate and license before commencing operations.

14 Section 31 of the NCC Act provides that "no person shall operate a communications system or facility nor provide a communications service unless authorised to do so under a communications licence or exempted under regulations made by the Commission".

Specifically for DFS, the Government of Mauritius is actively promoting the country as the fintech hub within Africa. As such, policies and legislature to attract innovative DFS projects are undergoing development. One such intervention is the Regulatory Sandbox License (RSL), which primarily offers the possibility of conducting business where there is no legal framework or adequate provisions under existing legislation. In essence, RSLs provide the test environment for DFS businesses with some regulatory forbearance.

In Bangladesh, both banks and non-bank entities, including mobile network operators, can participate as equity holders in the DFS sector subject to the following:

1. Banks holding majority beneficial ownership in total equity;
2. No bank or non-bank entity owning more than fifteen percent beneficial ownership in equity; and
3. Beneficial ownership of MNOs in a DFS platform not exceeding thirty percent of its total equity.

As such, having a commercial bank as a partner is unavoidable for DFS licensing in Bangladesh, compared with the freedom in other countries.

Payment Systems

The CBN has developed and implemented various payment systems regulations to meet present-day international best practices. This section introduces the different guidelines and rules for the development of the national payment system.

The Payments Systems Vision (PSV) 2020 of 2013 sets out to ensure the development of safe and secure payment infrastructure as a means to achieving financial stability. It highlights the need to upgrade the national operational payment systems in line with global best practices. The policy contains the roadmap for building an inclusive payments infrastructure, taking end users, service providers, regulators and the international community into cognisance. The PSV also recognises and encourages NIBSS to launch a payment scheme that enables real-time inter-bank funds and mobile money transfers with the licensing of twenty-six (26) mobile payments schemes following the development and release of the Regulatory Framework for Mobile Money Services.

Of the seven key recommendations highlighted in the PSV, to help recognise the relevance of information and communications technologies (ICT) in the financial system the following are key:

1. The CBN mandates the use of the SWIFT Sanction Screening (or a similar service) for all international payments sent between banks and their correspondent banks.
2. The CBN ensures regular benchmarks against the Principles for Financial Market Infrastructure (PFMI)[15].

Having set out the adoption and utility of electronic payments as a key objective, the PSV lists eight key pilot industries to serve as representative models for other industries. The leading sectors are

agriculture, smart cities, government flows, hotels and entertainment, transport, health, education, direct debit and bills payment.

In pursuance of PSV 2020, the CBN has passed additional implementation tools guiding the regulations and operations of payment channels and instruments.

The CBN Guidelines on Operations of Electronic Payment Channels of April 2016 define the minimum standards for the operation of electronic payment services, detailing regulations on minimum requirements of participants to ensure safety and

15 These Principles are produced by a committee of the Bank for International Settlements (BIS).

transparency. For banks and independent ATM deployers, the guidelines stipulate:

1. The minimum security standard - Payment Card Industry Data Security Standards (PCI DSS)
2. Relationship structures to ensure transaction acceptance and settlement
3. Local data residency requirements for transaction processing
4. Standards for protection of cardholder information across various processing systems
5. Systems adherence to established standards of card schemes

The guidelines stipulate that terminal and equipment vendors continuously maintain equipment compliance certifications. Also, it refers to the need to provide licensing requirements for other parties in the value chain, such as merchant acquirers that must ensure all terminals deployed accept all cards without discrimination.

The CBN Guidelines for the Direct Debit Scheme and Bill Payments recognises the emergence of multi-channel systems for direct debits including online platforms and instant payments. The guideline defines two stakeholder categories - payments service providers (PSP) and service providers. PSPs are payment service companies licensed to process electronic payments transactions. Service providers are banks or independent entities that deploy electronic payment platforms or integrate with licensed PSPs, managing payments or collections on behalf of billers.

The CBN Guidelines for Stored Value/Prepaid Card Issuance and Operations requires all money transfer scheme operators with stored value/prepaid cards acquire requisite approval from the CBN. The guidelines specify:

- Participating entities, include mobile/ telecommunication companies
- Partnership with licensed deposit-taking banks or financial institutions.
- Data storage requirements for the store of value
- Compliance with the CBN Guidelines for Transaction Switching and Card Issuance and the Guidelines on Card Issuance and Usage

The CBN Regulatory Framework for Mobile Money Services initially published in 2009 defined a standard framework for operating mobile money services. The framework is meant to provide ease of payments and financial transactions, thus creating a path towards achieving international money transfer best practices. The initial framework described three operating models - bank-focused, bank-led and non-bank led. The **bank-focused model** targeted existing banks and the provision of banking services to customers using the mobile phone as a delivery channel. The **bank-led model** supports a consortium of banks and other institutions jointly delivering mobile services. The **non-bank-led model** allows independent non-bank corporate organisations/institutions offer mobile payment services directly. The revised guidelines of 2015 have since eliminated the bank-focused model. MMO's and other financial institutions have a duty to ensure the transmission of payment messages to the recipient through secured SMS. Irrespective of operating model, the Mobile Money Services Guidelines address:

1. The business rules governing the operation of mobile money services, specifying the primary functions expected from any mobile payments service and solution.
2. The participants and their expected roles and responsibilities in providing mobile money services within the financial system.
3. Additional mandatory approvals and registrations such as from the NCC for the technology devices utilized.
4. Compulsory scheme enrolment before customer service roll-out.

1. Transaction format specifications include transaction (reference, amount/value and date), payer and payee telephone numbers, and other relevant transaction details and unique identifiers.
2. Forbids the use of airtime as a store of value and it cannot be deducted in respect of transaction charges.

The CBN Guideline on International Mobile Money Remittance Services provides a framework for the operation of foreign currency-denominated mobile money services. MMOs seeking to offer international mobile money remittance services in Nigeria must be registered legal entities, with a net worth of US$1 billion successfully operating in at least 20 countries for a minimum of ten years. They must partner with an authorised dealer (licensed bank). It provides detailed rules on international mobile money remittances, infrastructural risk and risk management strategies.

The Guidelines on International Money Transfer Services (for organisations such as Western Union) similarly regulate international money remittances, not specific to mobile transfers in particular. The framework specifies minimum standards for international payments and for transparency by all parties.

The guidelines provide a legal framework for all international money transfer services and require that all operators obtain licenses from the CBN before engaging in money transfer services.[16] There are four broad categories of money transfer providers covered by the guidelines:

1. International Money Transfer Operator – operators licensed in foreign jurisdictions, seeking to extend operations into Nigeria
2. Indigenous International Money Transfer Operator – operators indigenous to Nigeria
3. Foreign Technical Partners – who partner with Nigerian operators in providing technical assistance
4. Local Agents – locally authorised foreign exchange dealers.

Additional rules are as follows:

1. Operators must show evidence of meeting the minimum paid-up share capital[17], plus the guarantee of the parent company.
2. Operators must be present in at least seven different countries.
3. To engage the services of a foreign technical partner, the operator must have a minimum net worth of US$1 million[18].
4. Under Section 3.2 of the guidelines, the allowable limit for outbound money transfer is two thousand US Dollars (US$2,000) or its equivalent per transaction, subject to periodic review by the CBN.

For DFS operators, this stipulation requires diligent monitoring of transactions to prevent fraudulent activities.

Finally, the Nigerian Government has demonstrated serious commitment towards developing the present payment systems by initiating the Payment System Management Bill, to guide the management, administration, operation, regulation, and supervision of payment, clearing and settlement systems in Nigeria. The Bill provides for the establishment of a Payment System Management Committee. It provides that CBN must authorise any payment system before it comes into operation, and makes the dishonour of electronic payments for lack of funds a criminal offence.

16 Section 2 of the guidelines states that "no person or institution shall operate international money transfer services unless such person/institution is licensed by the CBN

17 N2,000,000,000 (two billion naira) for Nigerian companies; and N50,000,000 (fifty million naira) or its equivalent for foreign companies

18 As per the latest audited financial statement, or as may be determined by the CBN from time to time

The payment systems policy in Kenya is quite similar to that in Nigeria. Like the CBN, the CBK has full powers to issue guidelines that regulate payment systems. However, Kenya has enacted the National Payment Systems Act (NPSA) 2011 and the National Payment Systems Regulation 2014. The laws establish different categories of payment systems: large value and retail/low-value payment systems.

The Mauritius and Bangladeshi parliaments are also currently considering National Payment System Bills, with considerably similar terms to the NPSA of Kenya.

Financial Inclusion

Recent developments have witnessed a dedicated campaign for an increased financial inclusion of the Nigerian people. Noteworthy is the limited availability of physical bank branches and other financial institutions across the country, hence the recent shift towards encouraging ease of banking access through electronic channels and other dedicated means of financial inclusion.

CBN, as the principal financial services regulatory body has developed a broad plan for financial inclusion, as well as for ensuring seamless financial transactional flows. The National Financial Inclusion Strategy (NFIS) was introduced in January 2012 to facilitate enhanced access to and efficiency of financial services, as well as to establish targets for reducing financial exclusion to at least 20 percent by 2020.

The strategy also aims to increase the number of Nigerians included in the formal financial services sector to 70 percent by 2020. In addition to NFIS, several other regulations of the CBN, especially in the areas of electronic and mobile banking and the three-tiered KYC requirements, are designed to aggressively promote financial inclusion. The attainment of NFIS targets is dependent on the implementation of other complementary strategies and frameworks such as; the CBN Regulatory Framework for Mobile Money Services, CBN Financial System Strategy (FSS) 2020, Payment Systems Vision (PSV) 2020 and the Cashless Policy.

For example, CBN's guidelines on Regulatory Framework for Mobile Money Services in Nigeria seeks to address current challenges associated with mobile money services technology and offers a regulatory framework for achieving international best standard and practice in money transfer and ease of financial transaction through mobile money channels. This would further increase active participation in the sector.

Furthermore, CBN's Financial System Strategy 2020 specifies acceptable operating minimum standards and benchmarks to encourage comprehensive financial inclusion in the country by promotingDFS as a substitute for cash-based transactions. The strategy requires the deployment of minimum standard of ICT in all banking operations. It promotes the use of cheques and e-payment systems as substitutes for cash transactions to improve efficiency in currency distribution, money transfer and financial transactions in general.

CBN's Nigeria Payment Systems Vision 2020, developed in 2013, in full consultation with all stakeholders in the industry is a critical linchpin for increasing financial inclusion. The policy creates a roadmap for a payment infrastructure that well serves end users, service providers, regulators and the international community.

Unlike the CBN, Kenya's CBK has not deployed regulatory guidelines with a singular focus on financial inclusion. This gap does not, however, suggest a lack of commitment on the part of the bank, as dedicated efforts have witnessed the recognition of international conventions on financial inclusion. For example, under the authority of the CBK, as provided in the National Payment Systems Regulation, the development of mobile money platforms, ATMs as well as agency banking are aimed at ensuring more involvement in the financial sector.

In 2012, the CBK issued guidelines for the Provision of Electronic Retail Transfers and E-Money. The guidelines were meant to ensure easy participation by individuals in banking, through the encouragement of electronic retail banking platforms. It has also developed strategies and standards for agent operations, including the provision of mobile and electronic banking services. The above requirements are identical to Nigeria's financial inclusion strategy, save for the fact that the Nigerian strategy is consolidated in few regulations. It is important to mention that financial inclusion in Kenya has been widely dependent on the enthusiastic adoption of mobile money services. According to the CBK, 69 percent of adults have formal accounts mainly operated through mobile platforms.

Mauritius, also has achieved a high level of financial inclusion. Only ten percent of the adult population remains unbanked. This high level of inclusion stems from the success of the government's policies for ensuring ease of banking transactions in the country. Remarkably, the Bank of Mauritius has not issued any specific guidelines or policies on financial inclusion. In 2014, Mauritius initiated the Finscope Consumer Survey to collect information that enables the government to develop and monitor evidence-based policies and regulations to aid in broadening the reach of financial services in Mauritius.

The financial inclusion strategy in Bangladesh aggregates policy advice from reports published by the World Bank (2008), Global Financial Development Report (2014) and Brookings Financial and Digital Inclusion Project (FDIP) Report (2015). These reports tested the impact of financial inclusion on low-income sectors and found significant positive results. The Bangladesh Bank, in conjunction with the government, has implemented the National Financial Inclusion Strategy, "Bangladesh (NFIS-B)" which is broadly similar to the Nigerian Financial Inclusion Strategy. The strategy promotes the deployment of mobile financial services, encourages the creation of no-frills accounts (accounts without a minimum balance requirement) for the underdeveloped areas and sectors, and the introduction of electronic payment systems. It is important to stress that the financial inclusion policy in Bangladesh is not limited to banking financial services, but includes microfinance and insurance institutions, as well as postal services.

In the pension sector, efforts to broaden the scope of the pension scheme through a detailed inclusion policy are also in progress. As stated in the NFIS, these approaches aim at including pension payment operators and processors in DFS operations. The increasing number of MSMs with less than the minimum number of staff for the statutory pension scheme led to the recognition of micro pensions as a strategy for the contributory pension scheme. Thus, implementations of specific mobile applications in targeted jurisdictions for financial transactions including the provision of pension services to the self-employed and informal sector workers are being introduced.

The Nigerian National Information and Communication Technology Policy 2012 extensively addresses the development of incentives aimed at encouraging active participation in IT services. The policy defines an extensive five (5) year plan for implementation across sub-sectors of national importance: agriculture, oil and gas, health, education, finance, governance, infrastructure support, knowledge-based economy, labour employment and productivity, and research, and development. The sections of the policy providing for the development of IT parks are yet to be implemented.

In 2017, NITDA introduced a 3-year ICT Roadmap (2017 – 2020) and proposed for implementation, cutting across governance, policy, legal and regulatory framework, industry and infrastructure as well as capacity building. The roadmap is aligned with the priorities of the Federal Government's Economic Recovery and Growth Plan (ERGP) which targets development of standard ICT practices. It seeks to implement the 2012 ICT Policy but goes further with the introduction of some novel ideas and proposals, such as the National ICT University and a specialised ICT Development Bank. Furthermore, the roadmap is designed to entrench ICT across all economic sectors, increase ICT utility in national security management, ensure efficient and affordable ICT infrastructure, increase ICT penetration across all socioeconomic levels and increase active mobile broadband subscription coverage. Finally, the roadmap seeks to encourage local ICT production (hardware and software), to enhance local capacity, reduce import dependence and generate foreign exchange through exports to regional and continental markets.

In all, ICT developments in Nigeria are an indicator of ripened opportunity for implementation of additional DFS initiatives and progress towards financial inclusion for all.

DFS Substantive Policy Areas

KYC AND DUE DILIGENCE

Know-Your-Customer (KYC), also known as Customer Due Diligence (CDD), refers to the policies and procedures that financial services providers utilise to obtain customer information and assess money laundering and terrorist financing risks. The practices and processes supporting the ability to detect, monitor and report suspicious activities encompass customer identification, customer policies and procedures, risk management and customer transaction monitoring. In all, KYC enables customer identification through unique transaction information, trends, and patterns, which will allow swift identification of unusual patterns, thereby protecting customers from fraud and misappropriation.

CBN POLICIES

Before the introduction of the three-tiered KYC in 2013, the Know-Your-Customer Manual (KYCM) incorporated global Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) principles and the recommendations of the Financial Action Task Force (FATF).

The March 2003 CBN Manual on Know-Your-Customer (KYC) for Financial Institutions, stipulates the requirements for KYC in all categories of financial transactions. The Manual included details of appropriate identification documentation for customers, limits on transactions and appropriate sanctions for breach of requirements.

The novel areas of the manual include:

1. The emphasis on customer identification beyond the point of application and for as long as the business relationship subsists;
2. Inclusion of the national identity card as an evidence of identity;
3. Minimum transaction limits for individuals and corporate organisations that require customer identity verification (Five Thousand US Dollars (US $5,000) or its other currencies equivalent or N1 million for individual or N5 million for a corporate entity);
4. Reestablishment of contact after six months of cessation of contact/correspondence by existing customers, in order to confirm relevant details;
5. The inclusion of notaries public and courts of competent jurisdiction among those qualified to certify identification documents;
6. Where certified copies are acceptable as evidence of identity, the original documents would still be required;

1. Search report by the financial institution's officer on a prospective customer's place of employment and residence included as the documentary evidence of address;
2. Specific sanctions for non-compliance with the provisions of the KYC Manual.

In a bid to promote financial inclusion, while providing a practical way to implement a risk-based approach to customer due diligence (CDD) and ensure global compliance, CBN introduced three-tiered KYC requirements. The tiered KYC supports flexible account opening requirements (and identification compliance) subject to daily transaction caps and restrictions. By characterising risks according to transaction levels - low, medium and high, the revised provisions create a defined structure for financial institutions that sufficiently classifies levels of risk.

LEGISLATION

The 2011 Money Laundering Prohibition Act is the primary legislation for deterring money laundering. It requires financial institutions, in the course of building relationships with customers, to verify customer identity and from time to time to scrutinise transactions undertaken by the customer. It mandates the implementation of adequate customer risk management policies by banks and financial institutions as well as the development of anti-money laundering programs. The act also requires continuous capacity development for their employees, and the reporting of single monetary transactions exceeding $10,000 or its equivalent in Naira at the prevailing rate.

Early in 2017, the Secured Transactions in Moveable Assets Act was passed to assist financial service providers with credit processes. The act provides that micro, small and medium enterprises (MSMEs) can register their moveable assets (such as motor vehicles, equipment and accounts receivables) in the National Collateral Registry, and use these moveable assets as collateral. The Collateral Registry should enhance opportunities for MSMEs to access financing, a key business constraint in the sector.

This should increase activities in the DFS sector, as collateralisation in financial lending has been made easier for lending banks and financial institutions. The security provided for lending small amounts and credit to small and medium financial institutions should also naturally encourage DFS operators, who usually start out as SME's.

Banking and OFIs

CUSTOMER IDENTIFICATION

The chart (Figure 57) of the various customer identification systems demonstrates the customer identification challenge, a core KYC requirement for effective CDD.

BANK VERIFICATION NUMBER (BVN)

To address the need for standard identification, the CBN introduced the Bank Verification Numbering (BVN) Policy in 2014. The national BVN policy aims at uniquely identifying bank account holders, and linking customer accounts through a unique identification number, the "BVN" and preventing misappropriation of funds by identity fraud. By linking customer information, the CBN has successfully implemented a system which stores transactions and customer information, and helps in detecting identity abuse, money laundering and other anomalies.

In July 2017, the CBN published an exposure draft titled the Regulatory Framework for Bank Verification Number (BVN) Operations and Watch-List for the Nigerian Financial System, with the purport of expanding the policy introducing the BVN initiative. The proposed regulatory framework intends to set out the roles and responsibilities of each stakeholder in the span of BVN operations in Nigeria.

The intent is to have standard operating guidelines stipulating processes for collection of sensitive data from bank customers, which are crucial to the operation of BVN as an essential component of KYC. On the other hand, the framework also includes a watch-list, a database of bank customers whose involvement in fraudulent activities is confirmed.

The importance of this regulatory framework to the activities of DFS operators is the embedded nature of BVN in all financial activities in DFS operations. By this, there is a thorough vetting of all financial transactions carried out via physical and digital platforms. This provides additional levels of transparency for digital transactions and ensures that safeguards are in place against fraudulent activities.

NON-CBN POLICIES AND LAWS

The subscriber identity module (SIM) registration initiative, overseen by the NCC under the SIM Card Registration Regulation 2010, was later amended under the Regulation of Telephone Subscribers (RTS). For identification and security purposes, the registration initiative captures the identity of mobile phone subscribers. The NCC uses this to facilitate data collection on phone usage, enabling operators to have a comprehensive profile of users in the different cellular networks. The result of this exercise is the enhancement of national security, as KYC provides information on the customer and client base, to aid informed decision making on the part of financial institutions and for national security needs.

The National (Electronic) Identity Card is issued by the Federal Government of Nigeria under the management of the National Identity Management Commission (NIMC), a body established by the National Identity Management Commission Act, 2007. It operates as a means of identity acceptable nationwide. Section 5 of the Act empowers NIMC to create, manage, maintain and operate the National Identity Database. NIMC is also responsible for the harmonisation and integration of existing identification databases in government agencies and their integration into the National Identity Database. The body also assigns a unique "National Identification Number" (NIN) to all persons registered, which provides each Nigerian citizen with a unique identifier. The nature of financial transactions is such that regulatory agencies require these systems and structures that enable proper identification of parties to a transaction as well as oversight and supervisory functions over DFS and financial operations.

The Anti-Money Laundering Combatting Financing of Terrorism Compliance Manual for Capital Market Operators was developed by the Securities and Exchange Commission (SEC) in 2010. The manual provides extensive guidelines covering CDD, specifically for non-face-to-face transactions and new technologies. The guidelines aim to ensure capital market operators put in place policies and take such measures as may be needed to prevent the misuse of technological developments in money laundering or terrorist financing schemes such as internationally accepted credit or debit cards.

The scope of KYC in most jurisdictions follows the same principal indicators involving the identification and verification of customer identity. In Kenya, under the Safaricom M-PESA KYC requirements, in the operation of DFS services such as e-wallet and mobile money, customers are obliged to provide details of their full names, provide an acceptable form of identification and include their date of birth.
Mauritius and India have also adopted these requirements.

CONSUMER PROTECTION

The Consumer Protection Council (CPC), is an agency of the Federal Government, under the supervision of the Federal Ministry of Trade and Investment. It is charged by the Consumer Protection Act of 1992 with ensuring consumer protection and safety; in particular, to: (1) eliminate dangerous products and provide for a quick resolution of complaints,

(2) protect the interest of consumers, and (3) increase consumer awareness. Its mandate also includes encouraging trade, industry, and professional associations to promote and enforce consumer protection standards. In 2005, CPC issued the Consumer Protection (Products and Services Monitoring and Registration) Regulations 2005 (CPC Regulation). The regulations stipulate that CPC shall register products manufactured, imported, advertised, sold, distributed in Nigeria. Companies are required to acquire CPC registration and approval before putting their products for sale. If the CPC is satisfied with the information, it shall issue a Certificate of Registration ("the Certificate") valid for five years or such other period or extension as the CPC may prescribe. There is a real doubt as to how widespread is the enforcement of these provisions is, particularly as it relates to the provision of services.

CPC's regulations recognise the existence of trade, industry or professional bodies (TIPs) for each service category. The CPC also identifies (or establishes where absent) relevant TIPs for service providers and requires service provider membership of the TIPs. However, it appears that many service providers may be unaware of the CPC or its regulations. It is further arguable that there may not be a TIP for DFS products, or rather that many DFS products, like apps, may have more in common with themselves than they do with the relevant TIP. As such, the uncertainty appears to detract from the ability of the CPC to guarantee the protection of DFS consumer rights.

In the financial sector, NDIC provides some level of protection for customer deposits. Under the NDIC Act, the commission ensures insurance cover for all deposit liabilities of licensed banks and other financial institutions and assists with the interest of depositors. However, NDIC protection apparently only applies to CBN-licensed activities. Furthermore, due to the variety of activities in the DFS value-chain, consumer protection beyond deposit protection is required. In 2016, NDIC introduced deposit insurance guidelines on the mobile payment systems (MPS), known as the "Pass-Through Deposit Insurance Scheme." The insurance operates as a "Bare Trust Scheme" based on each beneficiary holding distinct shares, and each of them is entitled to protection under the scheme. The scheme secures MMO funds in a pool and guarantees payment to subscribers in the event of the failure of the financial institutions.

In recognition of some of the current deficiencies, CBN introduced a Consumer Protection Framework (CPF) in 2016, in exercise of its powers under the CBN Act and the BOFIA. International principles outlined by the G20 High-level Principles, the World Bank Good Practices and European Union Four Pillars of Consumer Protection are reflected in the framework. The objective of the framework is the effective regulation of consumer protection practices of banks and other financial institutions, within the regulatory jurisdiction of the CBN. Through 9 consumer protection principles, the CPF outlines the role and responsibility of the CBN in ensuring that financial institutions attain the stipulated standards. The framework grants wide-ranging powers to CBN to punish offenders. However, specific mechanisms on how the CBN will exercise these powers to protect consumers, beyond its customary practices and other regulatory objectives are yet to be properly publicised.

The NCC issued similar regulation in August 2007. The Consumer Code of Practice regulation "confirms and clarifies the procedures to be followed by Licensees in preparing approved consumer codes of practice, and determines and describes the required content and features of any consumer code prepared by, or otherwise applicable to, Licensees". The regulations apply to all licensees and service providers in the telecommunications industry. The regulations grant powers to licensees to prepare and develop individual customer codes for the provision of services applicable to the licensee. This code provides some of the terms and mandatory requirements of the licensee's customer code. Schedule 1 of the regulation contains extensive details on the structure of the general code for each licensee. Once again, the effectiveness of the code is dependent on its active enforcement and implementation.

Considering the inherent risks arising from the technological complexity of DFS, usually involving intricate processes that are sometimes opaque to the average user, there is the need to enforce a minimum level of consumer protection practices to build customer trust and to ensure the ready adoption, stability and sustainability of DFS services. However, consumer protection provisions are not aligned and consolidated across different sectors possibly leading to silos and gaps in overall enforcement and levels of consumer protection. Furthermore, the need for effective enforcement activities to build consumer confidence in DFS cannot be overemphasised.

Unlike Nigeria, Kenya has constitutionally protected consumer rights and obligations concerning product and service liability, with stipulations for the promotion and enforcement of consumer rights. The act establishes the Kenya Consumers Protection Advisory (CPA) Committee as an agency for (1) consumer protection policy formulation, (2) accreditation of consumer organisations, (3) consumer rights and responsibilities advisory, (4) complaints investigation and (5) establishment of conflict resolution mechanisms. Furthermore, under Kenyan law, notably the National Payment System Regulation, the CBK has powers to prohibit the issuance of any payment system if such is against the interest of the public. The regulation also makes it criminal to use and disclose any confidential information obtained in the course of transactions using a payment system for personal gain, except such information is in the public domain. DFS operators cannot provide misleading advertisements that fraudulently represent the operators and any of their participants.

Another customer protection mechanism provided under Kenyan law is the mandatory provisions regarding customer service agents for DFS operators. Regulation 38 states that a payment service provider shall within six months after commencing the provision of payment services, establish a customer care system within which its customers can make inquiries and complaints. A customer service agreement between each DFS operator and its clients is mandatory.

The customer service agreement should include a detailed description of the services; requirements for account opening; conditions and procedures for account maintenance and the management of dormant and deceased persons' accounts. Also mandated are a privacy policy, customer account use and access responsibilities, dispute resolution and the governing law, warranties and liability, indemnity, exclusions or service limitations, disclosure and data retention, and force majeure.

A bill is before the National Assembly that seeks to combine consumer protection regulations with newly introduced national competition laws. The bill proposes the establishment of a Competition and Consumer Protection Tribunal to develop and promote ethical, efficient, and competitive markets in the Nigerian economy, facilitate access by all citizens to safe products, as well as secure the protection of rights for all Nigerian consumers.

The bill further seeks to make all forms of restrictive agreements illegal and creates the Competition and Consumer Protection Tribunal. Finally, the effectiveness of these new provisions will depend on the extent to which this new agency acts. The danger of ineffectiveness by over-centralisation, and that the less glamorous and more tedious consumer protection jurisdiction may be under enforced in preference to anti-competition is worrying.

PRIVACY AND DATA COLLECTION

Section 37 of the constitution guarantees the privacy of citizens, their homes, correspondence, telephone conversations and telegraphic communications. Beyond this, Nigerian law makes little reference to privacy beyond a few industry-related provisions. Nonetheless, in the case of *Habib Nigeria Bank Limited v. Fathudeen Syed M. Koya [1990 - 1993] 5 NBLR p. 368 and 387*, the courts held that banks owe their customers a duty of care and secrecy.

The NCC Code of Practice Regulations 2007 obliges licensees (telcos) to protect consumer information against improper or accidental disclosure and to guard against the transfer of such information to a third-party in a manner which is not in conformity with relevant statutes and regulations. Unlike the right to privacy under Section 37 of the constitution that restricts protection to Nigerian citizens, this code applies to both Nigerians and non-Nigerians.

The National Information Technology Development Agency (NITDA) is a government agency responsible for national IT policy development and implementation. NITDA has published draft privacy guidelines that prescribe minimum data protection requirements for information management activities (collection, storage, processing, management, operation, and technical controls).

The guidelines are currently the only set of regulations with specific and detailed provisions on the treatment (protection, storage, transfer or processing) of personal data[19]. Further, the guidelines prohibit the cross-border transfer of data to any country that does not guarantee an adequate level of protection.

The privacy and data protection laws are neither comprehensive nor codified and tend to be sector specific. Nonetheless, the constitutional backing for the protection of citizens' data and privacy appear sufficient. However, rather than waiting for the courts to determine bounds of privacy and data protection rights, there is the opportunity for a comprehensive privacy legislation that sets uniform privacy standards.

Kenya, Bangladesh and Mauritius also have data protection and privacy provisions in their constitutions. Mauritius is the only country with a distinct Data Protection Act, enacted in 2004 as well as Data Protection Regulations, issued under the powers of the Commissioner for Data Protection. The act's objective is to provide for the protection of the privacy rights of individuals in view of the developments in the techniques used to capture, transmit, manipulate, record or store data relating to individuals. It therefore emphasises the requirement of adequate information / data storage, protection and preservation. The act focuses on data collection through electronic means and requires minimum standards, that is, secured networks and storage systems for all data controllers including IT providers, telecommunications providers, financial and non-financial institutions. Finally, section 34 of the act provides that every data controller and data processor shall apply for registration in writing to the commissioner prior to providing requisite services.

INTELLECTUAL PROPERTY

Considering the dependence of DFS on technology, it is essential that DFS providers have some intellectual property rights protection. Nigeria has a variety of laws that grant protection to trademarks, copyrighted material, patents and industrial designs. Nigerian law also provides for the registration of technology transfers from foreign institutions. An issue, however, is that Nigerian intellectual property law has remained relatively outdated and poorly enforced, and does not adequately provide for new types of intellectual

19 Personal data is: "any information relating to an identified or identifiable natural person (data subject); information re lating to an individual, whether it relates to his or her private, professional or public life. It can be anything from a name, address, a photo, an email address, bank details, posts on social networking websites, medical information, or a comput er's IP address".

property such as software or programming languages.

The Nigerian Copyright Act 1988 protects rights in literary works, including "computer programs". The act defines a computer program as: "a set of statements or instructions to be used directly or indirectly on a computer to bring about a certain result," which covers software. Copyright protection does not require registration, although enrolment on the Copyright Notification Scheme as a legal record of existence is possible.

Where software applications can be categorised as inventions (and this is not a settled matter in Nigerian law) they may be registrable as patents. Under the Patents Act (Cap. P s, 2004), a patent protects an invention that is new, involves an inventive step, is capable of industrial application, and is not excluded by law. The patent registration process is depository, that is, the patent is not examined on compliance with the requirements for patentability as prescribed by the relevant legislation. Consequently, patents are granted at the patentee's risk. Patent rights are vested in the "Statutory Inventor", the first person to file and register the patent, and earns legal credit as being the inventor. A patent lasts for 20 years subject to the payment of annual renewal fees.

The Patent Act protects registered industrial designs. Upon registration of a design, the registrar publishes notification of such grant, including a description of the design in the government gazette. An official fee is also payable for the registration, and the entire registration process takes a period of between two (2) to four (4) months.

Nigeria is a party to the Paris Convention, and so where a patent or design has been filed in a treaty country, that priority filing starts a 12-month period within which a further application can be filed in Nigeria with priority.

Furthermore, Nigeria is a party to the Patent Cooperation Treaty, which like the Paris Convention allows the filing of a single application in the applicant's home country while preserving rights in Nigeria. It is not uncommon for Nigerian companies, owing to deficiencies in the rights system, to file in convention or treaty countries and claim priority in Nigeria.

The National Office of Technology Acquisition and Promotion Act (NOTAP Act), Cap. N68, 2004, establishes guidelines for the transfer and importation of foreign technology. The NOTAP Act governs the transfer of foreign technology, and requires the registration of every contract or agreement for the transfer of foreign technology wholly or partially connected with the following:

a. Use of trademarks or patented inventions;
b. supply of technical expertise or any form or technical assistance;
c. Supply of essential or detailed engineering;
d. Supply of plant and machinery; and
e. Provision of operating staff and managerial support and the training of personnel

If the venture requires the execution of software licensing agreements with foreign companies, such arrangements must be registered.

Trademark registration entitles the owner of a trademark (under the Trademarks Act, Cap T 13, 2004), to exclusive use of same and the right to exclude others from using that trademark. Any person who attempts to register the mark without the owner's consent infringes the right. Registration subsists for an initial period of seven (7) years and is renewable after that for consecutive fourteen (14) year terms.

Intellectual property rights laws, at least in the technology domain, are mostly similar in Nigeria, Kenya, Bangladesh and Mauritius. However, Mauritian law protects some additional titles such as defined in the Layout Designs Act that protects "integrated circuits[20]" and "layout-designs"[21]. The forms of rights protection are important for individuals who have the desire to protect particular software.

COMPETITION

Competition is an essential aspect of financial services that guarantee efficiency and lower prices; however, Nigeria is yet to have a Competition Commission or specific consolidated competition legislation. Current provisions on competition are sector specific, regulator-enforced and focus on issues related to mergers and acquisitions and communications. As such, uniformity of standards is lacking. Relevant legislation includes:

1. The Investments and Securities Act (ISA), which empowers SEC to approve every merger, acquisition or business combination between or among companies operating in Nigeria provided it will not restrain competition or create a monopoly in any line of the combined business enterprise. SEC is also responsible for the prevention of market fixing and manipulation, insider trading and other forms of fraudulent and unfair trade practices and is authorised to undertake a court sanctioned break-up of the infringing company to avoid a substantial restraint on competition.

2. Thus, NCC Mergers involving Nigerian telecoms companies must comply with the provisions of the Nigerian Communications Act (NCA) 2003 and the Competition Practices Regulations 2007 promulgated by the NCC. NCC is charged with the promotion of competition in the communications industry with exclusive jurisdiction to ensure compliance with competition laws and regulations and protects providers and consumers from trade malpractices practices by its licensees.

   In 2012, NCC tagged MTN Nigeria as the "Dominant Operator and resolved, among other things, to enforce a reduction in the variance between MTN Nigeria's retail tariffs for on-network and off-network calls. This determination of market dominance will likely adversely affect DFS providers partnering with MTN, the most dominant telecommunications provider, in the provision of DFS services.

3. As stipulated in BOFIA, banks and other financial institutions licensed by the CBN are required to obtain the prior approval of the governor before any merger and acquisition is consummated and announced. The CBN process is in 3 stages - pre-merger consent, approval in principle (AIP), and final approval. However, SEC grants the final approval approving the transaction, after which the court shall accept the scheme of merger.

4. Under the Insurance Act, no insurer may amalgamate with, transfer to, acquire any insurance business (from any other insurer), or part thereof without the approval of NAICOM. Furthermore, under the NAICOM Act, no insurer shall merge with any insurer in the life assurance or workmen's compensation insurance sector without prior court sanction. Additionally, no insurer shall either increase the minimum rates of premium it charges in respect of any compulsory insurance without the approval of NAICOM.

Outside the telecoms sector, robust regulations and activity relating to anti-competitive practices, or misuse of market position beyond merger control are lacking. In some ways, the current merger rules may be anticompetitive as they may discourage mergers between smaller entities. One may argue that within the context of Nigerian business culture, monopolies are not as frowned upon as in European and American markets.

20 An integrated circuit is "a product, in its final form or an intermediate form in which the elements, at least one of which is an active element, and some or all of the interconnections of which are integrally formed on a piece of material and which is intended to perform an electronic function".

21 A layout design is "synonymous with topography and means the three-dimensional disposition, however, expressed, of the elements, at least one of which is an active element, and some or all of the interconnections of an integrated circuit, or such a three-dimensional disposition prepared for an integrated circuit intended for manufacture".

Arguably one of the exceptional benefits of DFS entities and fintechs is the increased competition in the banking and financial services sector, providing alternatives to the unbanked and those dissatisfied with traditional financial services. As such, the coexistence and active participation of DFS providers requires robust competition law that will prevent the current providers from using their market dominance to inhibit the growth and adoption of DFS. Hence avoiding the prevention of monopolies arising in the DFS sector, is imperative.

The Competition and Consumer Protection Bill is presently before the National Assembly. The bill, combines competition and consumer protection regulations and proposes the establishment of a Competition and Consumer Protection Tribunal for developing and promoting fair, efficient, and competitive markets. The bill also mandates access to safe products and protection of rights for all consumers. Finally, the effectiveness of these new provisions will depend on the extent to which this new agency enforced the law.

The Trade Malpractices (Miscellaneous offences) Act of 1992 is specific to products and not services and is more concerned with weights and measures offences and mis-description of goods and so on. It clearly does not apply to DFS.

In 1988, Kenya passed the Restrictive Trade Practices, Monopolies and Price Control Act. The act aimed to regulate market conduct through the prohibition of restrictive trade practices, abuse of dominance and market structures through regulation of horizontal mergers and acquisitions as well as the unwarranted concentration of economic power. Under the act, restrictive trade practices are investigated by the Commissioner for the Monopolies and Prices Department of the Ministry of Finance. The ministers issue orders and may order the commissioner to investigate any sector. Furthermore, applications for mergers and acquisitions would go to the minister. The Restrictive Trade Practices, Monopolies and Price Control Act was largely ineffective, and was always intended to be purely a transitional piece of legislation. The act was criticised for maintaining price control provisions, confusing and unclear enforcement procedures, and the advisory role of the commissioner. As such, a new Competition Act was enacted in 2011 to deal with these concerns. The new act creates the Competition Authority of Kenya, which now handles all competition-related issues.

The Competition Commission of Mauritius (CCM) is an independent public body, established to enforce the Competition Act 2007. The act defines four areas of restrictive practice, which the CCM may investigate and - if it believes that a restrictive practice is occurring - take action to remedy. In cases of collusive agreements, the CCM is also empowered to levy fines on enterprises involved. The act sets out the CCM's powers of investigation and some fundamental principles of transparency, natural justice and fairness to which it must have regard.

CYBERCRIME

The Cybercrimes Act 2015, provides a practical, unified and comprehensive legal, regulatory and institutional framework against cybercrimes. The act offers protection against the misuse of online and other digital platforms, including DFS platforms. It provides punishment for the interception of electronic mails or processes through which money and or valuable information is conveyed and makes it an offence for anyone to wilfully tamper with an electronic message to misdirect it or change its substance. It also outlines the process by which electronic signatures can be binding for the certain transactions and purchase of goods and provides a penalty for the forgery of electronic signature.

The Cybercrime Act prescribes minimum requirements for financial institutions specifying transaction processing and authorisations access rights for employees as well as penalties for the fraudulent issuance of electronic instructions and the manipulation/fraudulent use of ATMs /POS terminals. Also, the act outlines a variety of electronic card related offences and penalties for each, as well as offences related to the unauthorised use of another person's card. It also creates the duties/obligations of financial institutions concerning electronic monetary transactions, protection of data and interception of electronic communications.

The Cybercrime Act is an impressive piece of legislation, but enforcement of its provisions will determine its effectiveness. Worryingly, this law, particularly its cyberstalking rules, are being used to intimidate and charge online journalists and bloggers, especially those who have criticised politicians. Also worrying are the provisions relating to lawful interception of content, data and traffic. Arguably, the constitutional issues involved (under Section 37) with such an act necessitate that a specific law dealing with such interceptions be debated and enacted.

The Economic and Financial Crimes Commission (EFCC), which has powers to deal with fraudulent or corrupt practices, has come under similar criticism. The EFCC Act, 2011 makes it an offence for any person employed in a financial or non-financial institution to neglect to secure compliance with the act as well as criminalises any act of acquisition or financing of any property originating from an offence under the act.

The Independent Corrupt Practices and Other Related Offences (ICPC) Act, 2000 is a crucial tool in the fight against corrupt practices and other related offences such as fraud, bribery and the making of false statements, especially by public officers. Section 3 of the act establishes an Independent Corrupt Practices Commission, vesting it with the responsibility for investigation and prosecution of offenders thereof. The act provides for the protection of informants of criminal activity who give information to the commission.

Section 43 of the act recognises criminal activity that may be partly or wholly performed using automated means such as alteration of electronic account information and provides for criminal sanctions concerning fraudulent activity using electronic means. This is of importance to the operation of DFS, as appropriate provisions to identify, criminalise and sanction actions performed using digital mechanisms and electronic platforms with regards to electronic medium information or instruments that store data. Appropriate safeguards exist to ensure minimum standards are enforceable under legislation regarding the storage of customer data on digital platforms. These precautions are relevant taking into consideration issues surrounding confidentiality of customer information as provided for under Section 37 of the Constitution which enshrines the principle of privacy of personal information. One would hope that the culmination of these sanctions will provide sufficient deterrence to criminal activity using electronic means.

To enhance the security of financial transactions, the CBN published an exposure draft of the Regulatory Framework for Unstructured Supplementary Service Data (USSD) for the Nigerian Financial System. The guidelines intend to establish rules and risk mitigation strategises for the deployment of USSD-based DFS. Specifically, the guidelines mandate end-to-end encryption protocols across the transmission channels, as well as message authentication protocols and transaction validation mechanisms.

In Kenya, it is clear that its dominance in the DFS sector has led to an increase in cybercrime. The provisions of the Crime and Anti-Laundering Act 2009 are a significant step in bringing the country up to international anti-money laundering (AML) and financial crime regulation. The act created the Financial Reporting Centre (FRC) as an agency whose primary objectives were to identify proceeds of crime, preventing money laundering, and combating of terrorism financing. It ushered in stronger compliance standards. However, this act was criticised by some commentators as not giving the FRC sufficient enforcement powers and as such, enacted a new Bribery Act was enacted in 2016. One of its key provisions was to strengthen the authority of the FRC and align Kenya with British and American money laundering laws (notably the Bribery Act and the Foreign Corrupt Practices Act respectively).

The recently approved Computer and Cybercrime Bill 2016 seeks to monitor, control and eradicate cybercrimes. The bill came about as a result of an increase in cybercrime, with up to 3000 monthly incidences. The law criminalises cyber offences such as computer fraud, cyber-stalking, child pornography and unauthorised access to computerised systems. The bill also explicitly protects Kenyans from fraud while using mobile money platforms. Individuals who access computer systems without due authorisation will face stringent penalties.

The Computer Misuse and Cybercrime Act, modelled after the Council of Europe's Convention on Cybercrime (2001), was passed in Mauritius in 2003, being one of the earliest examples of a cybercrime law in Africa. The ICT Authority is one of the leading partners in national efforts to combat cybercrime.
Preventing and prosecuting cybercriminals is complex and requires a swathe of instruments including legislation, regulation, economic and technical measures to make the fight efficiently.

LAST MILE

Most of this legal analysis has focused on the regulated activities that encompass DFS operations. However, after meeting the regulatory requirements, DFS ecosystem actors must comply with other regulations in their operations.

The Labour Act of 1990 regulates the relationship between employees and employers. The act provides for minimum standards of protection for employees in wages, conditions of employment, leave and termination of employment. The act applies to 'workers' defined in section 91 of the Labour Act as excluding persons exercising administrative, executive, technical or professional functions. Thus, the Labour Act is deemed to apply only to low-level or "junior staff".

The Labour Act extends to contract and ad-hoc staff, temporary staff and staff operating remotely (via call centres, online support and remote assistance), provided that these fall within the definition of 'worker' as defined in the Labour Act. The standard terms of employment must include and cater to these forms of engagement.

Other considerations of DFS operators will include registration with the relevant tax authorities as well as meeting state and local government requirements for setting up a business.

Tax Regimes

DFS operators, in particular, will need to consider implications surrounding the Companies Income (Amendment) Tax Act 2007 which primarily amended the Companies Income Tax Act Cap 60 Laws of the Federation of Nigeria 1990 and made it more responsive to the tax reform policies of the Federal Government and enhanced its implementation and effectiveness. The act provides a broader coverage for all companies operating in Nigeria or operating outside Nigeria, but with income accruable from within Nigeria.

DFS operators cannot avoid payment of company tax obligations to the Federal Inland Revenue Service (FIRS), for transactions performed across international digital platforms/channels but which are accruable to the Nigerian operator. This requirement is also applicable in cases where operators rely solely on digital/online presence without necessarily maintaining a physical location. The principle of payment to the FIRS remains intact as long as there is income derived from within Nigeria.

Thus, for DFS providers there is need to ensure that proper accounting policies are in place.

Categorising transactions across different jurisdictions, and making appropriate remittances to supervisory institutions is also necessary.

The Capital Gains Tax (GCT) Act governs chargeable gains accruable from the disposal of assets by individuals or companies. CGT calculations (currently at 10% of the chargeable gain) are deductions from the total sum accruable as chargeable receipts[22]. The applicability of the CGT act extends to any foreign currency, not in Naira, and spreads its reach to assets outside Nigeria, where the individual is temporarily resident or resident in Nigeria for a minimum number of days in a year. The act also includes gains on any goodwill of a company or copyright.
Hence for DFS providers, accrued chargeable gains from their operations will have to be identified and remitted as appropriate.

The Value-added Tax (VAT) Act provides for VAT as tax charged and payable on the supply of all goods and services, except those named under the act. Section 5 of the act specifies the value to be charged to the monetary value of the good or service, or if not stated in financial terms, then it is deemed to be based on market value. Provision of DFS is considered to be the provision of a service as reported under the VAT Act. Thus, in the provision of all DFS services, the rate of 5% VAT needs to be included and remitted to the FIRS.
DFS providers need to register with the Federal Inland Revenue Service (FIRS) for corporate income tax as well as value added tax (VAT). The DFS provider is required to submit an application letter to the FIRS for a tax clearance certificate.

Notwithstanding the preceding, DFS operators may now obtain permits for tax-free operations for up to five (5) years[23]. The Industrial Development (Income Tax Relief) Act, Cap I7 Laws of the Federation of Nigeria, 2004 (IDA) is the legislation responsible for the introduction of pioneer status in the Nigerian tax regime. Pioneer status operates by granting tax holidays on the income and dividends of companies in specific industries or companies which manufacture or make particular products. It may be given for a maximum period of 5 years, comprising an initial term of three (3) years and subsequent renewal for a period not exceeding two (2) additional years. The award of two (2) year renewal period is not mandatory and where approved, same may be for a two (2) year period or may be granted twice for one (1) year each.

State Laws

As employers of labour, DFS providers are required to register with the relevant state tax authority for withholding tax. The employer must begin to deduct income tax from emoluments of employees and remit such amounts within six months of commencing operations. DFS providers will also need to meet state requirements for business registration and pay the annual registration fee.

The company will also likely need to apply for a signage permit from the relevant state authority. The Lagos State Signage and Advertisement Agency (LASAA[16]) is one such authority. LASAA recognises two categories of signage. The first is First Party Signs, which are signs that inform the public of the existence of business at the location of the display.

22 These deductions include the asset value, income of the owner of the asset charged as personal income tax, allowances incurred wholly, exclusively and necessarily for the acquisition of the asset, incidental costs for the asset disposal, expenditure for the improvement/enhancement of the value of the asset, expenditure for the establishment, preservation and defending of the title of the asset, and incidental costs of the disposal of the asset.

23 E-commerce services and software development have now been included in the list of companies to benefit from pioneer status.

The second category is Third-Party Signs, which identify or advertise goods or services off-premises[17]. For both categories, DFS providers will need to pass a pre-scrutiny stage, and a formal application stage before LASAA approves.

DFS providers will need to pay the necessary local government levies for its activities. For example, the Lagos State Government passed the Local Government Levies (Approved Collection List) Law, 2010[18], which was enacted to regulate the administration of and unify the levies and taxes collected by local authorities within the state. The law makes it illegal for any local authority to collect levies or taxes aside from those provided by the law, with the clause that nothing in the law prevents a local authority from instituting a penalty for breach of its by-law. Relevant rates which will likely apply to DFS providers are shops and kiosks prices, parking fees, radio and television license fees, transmitter and other communication equipment license fees (although the NCC has challenged this in court), and public sewage and refuse disposal fees.

Finally, setting up business premises in a particular state does not ordinarily preclude a business from operating in another state. As such, the variance of rates between local and state governments should be a consideration in determining which location to designate as the primary business premises. This pricing regime should create competition for investment among states, as DFS providers shop for the jurisdiction that gives the better deal. This pricing issue applies to the variation of taxes in different states across the federation, and also about the harmonisation of right-of-way (ROW) charges payable by telecommunications companies and related public utility infrastructure on Federal, State and Local Government Highways. The need to harmonise these taxes would ease investment, establishment and running of businesses across the nation as well as aid better-informed decisions by entrepreneurs.

There is some debate as to the desirability of the creation of a single entity to handle all aspects of business registration, as fulfilling the various requirement will likely delay commencement of business. Furthermore, it makes no sense for companies to continually have to provide the same information to various government agencies, especially when the information, such as details of directors and tax identification, are already in the possession of other government agencies.

It is important however to note the advancements proposed and implemented by the Presidential Enabling Business Environment Council in providing a comprehensive framework to reform and simplify processes for registration of companies. The reforms cover areas such as starting a business, construction permits, access to electricity, property registration, access to credit, tax payments, cross-border trade and immigration. These reforms are crucial to improving the ease of doing business and investment in any country. Significant progress has been seen thus far with the ease of doing business, as regards the Corporate Affairs Commission (CAC), but there is still room for further development.

Kenya and Mauritius have consistently ranked higher than Nigeria on various measures related to ease of doing business, and it is likely that factors like these will affect investors' decisions as to where to set up shop, considering that the nature of DFS makes geographic mobility possible.

24 Other states are governed by individual state codes covering signage and advertisement.

25 i.e. not produced, procured, sold, delivered, performed or provided on the premises advertising the sign.

26 The Taxes and Levies (Approved List for Collection) Act 1998 delineates the taxes payable to the Federal, State and Local Governments and applies country-wide.

Conclusion and Recommendations

The steps taken in the last decade towards a more regulated financial ecosystem are evidence of the Nigerian government's recognition of the importance of DFS in financial systems development. The dedicated, albeit ad-hoc efforts of the relevant regulatory institutions towards issuing sufficient guidelines to ensure a seamless flow of financial transactions has increased the strategic importance of the sector. Notwithstanding, statutory provisions do not necessarily cover the entire scope of DFS, nor can they, given that the industry is still evolving, and there is the emergence of untested and disruptive products, business models and technologies. Sectoral improvements aligned with international best practices will be beneficial.

LEGAL FRAMEWORK

Although the legal framework for the operation of DFS seems extensive, one significant concern is the fact that licensing requirements for DFS providers are sectoral. A better option would require a broader licensing regime to cover present and future providers beyond merely financial (bank and non-bank) institutions, telecoms operators and ICT providers as well as foster alignment, cohesion and synergy between regulators and regulations. As such, a single licensing authority to ensure various DFS regulations are developed holistically to accommodate a wide range of services and issues arising from such services may be required.

If this is deemed not to be feasible, the option of adopting alternative and new regulatory tools like letters of no objection (as seen under the Kenyan regime for the authorisation of payment service providers) or the regulatory sandboxing (as in Mauritius) (see Appendix II) should be considered. Such an approach could also predicate a tiered licensing system, with one tier for traditional activities like banking; another for alternative DFS for which regulatory frameworks exist like MMOs and payment systems; and another such as regulatory sandboxes for new and untested products/services or business models. The proposed tiered system can be implemented hierarchically with new activities at the bottom and elevate as the licensing frameworks evolve.

While the efforts of the regulatory bodies in developing DFS regulations is noted, the legal nature of most DFS provisions established by regulation lacks statutory backing. Thus, it is crucial to develop these regulations with adequate statutory footing, enhancing the certainty of market participants as regulations are more malleable to political and policy changes. While there are proposed bills, the political will required to pass them into law is fundamental.

CYBERCRIME

Cybercrime, and more particularly, [unethical] hacking of personal data has been a significant impediment to the growth of DFS. It is arguable that the fear of financial transactions over networks and third party access to financial records, the perceived inability of DFS providers to detect system breaches coupled with publicised cases of data hacking and electronically perpetrated financial fraud has caused the dwindling trust in DFS.

An extended effect of this is persistence of the notorious internet fraud, also known as the Advance Fee Fraud, which uses emails and electronic communication, including pop-ups and spam messaging to defraud consumers.

INCENTIVES

It is also crucial that regulatory institutions develop guidelines for incentives to investors in DFS and guidelines to facilitate the introduction of an extensive range of financial products, services, business models and technological innovations. For example, the Nigerian Stock Exchange (NSE) should introduce more sophisticated payment gateways with broader payment acceptance into their online platforms for trading of securities. These incentives, together with dedicated campaigns to improve the knowledge and awareness of DFS operations and benefits by potential consumers, should markedly increase financial inclusion.

The burden of developing the financial sector rests largely on the CBN. Thus, CBN is responsible for developing and maintaining a financial system that meets international standards. An associated challenge is the multifaceted nature of this responsibility, considering the full range of imperatives related to developing a digital financial system. As such, active participation and communication amongst the various CBN departments will result in holistic policies and common policy position.

Finally, the involvement of local entities in DFS is important, especially IT platforms and payment systems development. Perhaps, strengthening relevant laws to ensure a minimum local content requirement in DFS provision would assist in achieving this result and create more employment opportunities for Nigerians.

Although in practice, it is rare to find in any jurisdiction a single law embodying all aspects of DFS, such a development could be a significant evolution that would set new standards for emulation by other countries.

STATE OF THE MARKET REPORT

PART 4

MARKET-ENABLING POLICIES

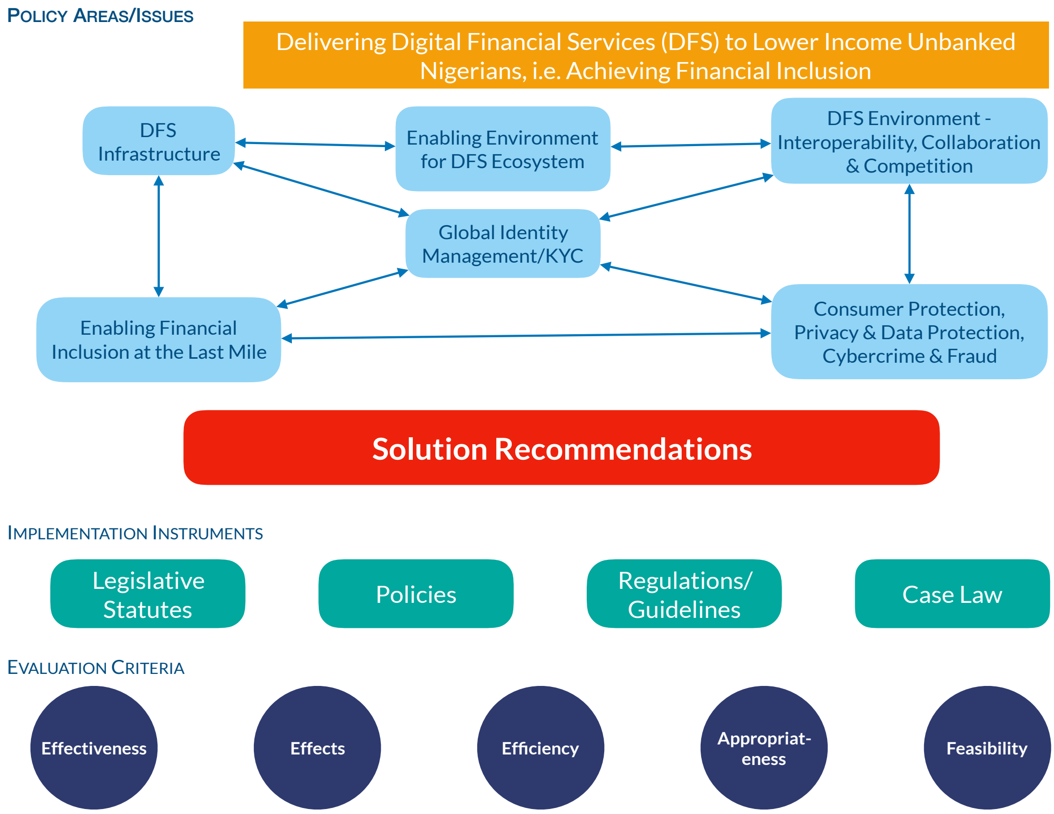
POLICY RECOMMENDATIONS

Figure 120 illustrates the framework employed and the relationship between policy and legislation[27].

The market-enabling policies presented herewith are the submissions of consultative stakeholder discussions (see Appendix III) of the key policy issues and related implementation (legislative and regulatory) instruments. The solution proposals - policy/legislative amendments and additions - evolved after stakeholder deliberations on six (6) primary policy issues:

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

Figure 120



27 https://www.linkedin.com/pulse/framework-analyzing-mobile-money-public-policy-johann-coetzee

RECOMMENDATIONS

GLOBAL IDENTITY MANAGEMENT/KNOW-YOUR-CUSTOMER (KYC)

The subsequent paragraphs articulate the solution recommendations for issues pertaining to global identity management and KYC. These issues address identity management, stakeholder awareness, transaction threshold limitations and level-1 BVN requirements.

1. 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.
2. 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.
3. Promoting consumer awareness and education on the use and benefits of NIMC as well as providing adequate resolution mechanisms and financial resources. Legislators should also be sensitised to appreciate the crucial importance and cross-cutting benefits of a quicker implementation of the national identity registration program.
4. The empirical assessment and review of existing KYC threshold should be undertaken from time to time.
5. There is a need to keep in place the existing attenuated KYC requirements for level-1 customers.

CONSUMER PROTECTION, PRIVACY AND DATA PROTECTION, CYBERCRIME AND FRAUD

The proposals to alleviate consumer protection, privacy and data protection, cybercrime and fraud span themes such as cost, access, poverty, financial literacy issues as well as security and privacy, consumer dispute resolution, culture and cybercrime.

1. A legislative amendment that mandates zero-rated charges for level-1 customer transactions within their transaction threshold was agreed. Where fees apply, interchange arrangements such as revenue sharing with telcos and other players such as infrastructure providers should be encouraged. There should be zero-rated charges for the use of USSD services as well.
2. Regulators should reduce the cost incurred by DFS operators in complying with relevant regulations by DFS operators to minimise the passing on of the cost to consumers. Therefore, revisions to existing legislation should consider this objective.
3. All operators should be required by law to disclose their fees and the actual cost of services to consumers. Existing guidelines should be amended to require and emphasise adequate consumer education with adaptation in local languages for effectiveness.
4. Policies that support and institutionalise agent banking remain essential. However, existing policies and guidelines should be amended to include incentives for DMBs, MMOs and other players to focus on increasing rural penetration which will create better access and uptake.
5. Policies that promote and incentivise inclusive new products and services are required, especially for insurance, pensions, credit and

so on. Also, the introduction of other financial services that will enhance incomes and create new sources of livelihood for the rural unemployed is welcome.

The National Financial Literacy Framework appears to be adequate; however, strengthening its implementation is imperative. Additional measures include:

1. Supporting financial literacy and consumer education with content adaptation, especially in local Nigerian languages.
2. Stipulating communication guidelines of "terms and conditions"/consumer communication. In particular, legislation should make us of simple English language in the drafting of 'terms and conditions' that will instead place the burden of vagueness and ambiguity (that results in a weak understanding of their actual 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 legislation to tackle unfair contracts terms, 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 is accessible on digital and social media platforms that are managed by the FIS.

The introduction of legislation on data protection and agency with enforcement powers is needed. The proposed data privacy and protection legislation should consider the following:

1. The inclusion of provisions that prohibit hacking, malware, and other forms of unauthorised access.
2. Stiff penalties for 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:

4. The provision of fidelity bond insurance in existing guidelines is acknowledged. However, enforced implementation across financial services is required.
5. The maintenance of fraud insurance for both the consumers and financial institutions in the event of fraud.
6. The enforcement of a legal framework for reporting infractions more transparently to deter breaches to enhance information security.
7. Elimination of unnecessary identity verification costs.
8. Issuance of adequate requirements for operators to protect data from hacking, malware and other unauthorised access.
9. Imposition of stiff penalties on the sale or unauthorised handling of customer data/ information is required.

NCC mandates MNOs to 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 issues include:

1. Establishing online dispute resolution mechanisms and a clearing house for the redress of grievances.

2. In all relevant organisations, the designation of senior/competent officers to handle customer complaints. The policy should also stipulate timelines for complaints resolution.
3. In all relevant organisations, the institution of practical measures, processes and procedures to prevent systemic failures of consumer redress.
4. Establishing a consumer ombudsman, mediation services, arbitral organs and courts that finalise consumer complaints within 21 days.
5. Establishing 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. Development of policies that promote proactive consumer protection.
8. Promote 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.

Required are 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.

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 the 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 cybercrime.
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.
8. Existing guidelines and legislation should be amended to reduce the rate of cybercrime by:
   a. Developing regulations that require minimum ICT security standards for financial inclusion and up to date training for ICT staff.
   b. Securing current security clearance for bank employees.
   c. Reviewing existing regulation on SIM card re-assignment. NCC should consider the possibility of blacklisting rather than reassignment.
   d. 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.
   e. Developing a framework that guides a working relationship between the ecosystem and law enforcement agencies that makes interaction less cumbersome.

f. Amending existing industrial training fund (ITF) law to encourage refunds to service providers who invest in education.

9. Cybercrime training for judicial officers and other law enforcement personnel from the Economic and Financial Crimes Commission (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.

DFS ENVIRONMENT: INTEROPERABILITY, COLLABORATION AND COMPETITION

This section presents solutions to addressing merchant, software and agent interoperability as well as collaboration and competition practices.

1. Cross subsidisation, such that one segment of the market (the high end - financially included) subsidises the other (the financially excluded), should be adopted.
2. All tariffs should be cost-reflective while encouraging financial inclusion. Consequential amendments should be made to the CBN Guide to Charges for Mobile Money Operations and Agent Banking to provide a cost-reflective tariff structure.
3. The need for regulators to 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.
4. The adoption of a market-led approach to pricing subject to regulation. Provision of better economic incentives is needed. Agents should be licensed to represent all financial institutions. Therefore, the issuance guidelines defining a unified interface for agents serving multiple operators will be necessary.
5. 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.
6. 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

The recommendations to enhance financial inclusion at the last mile address consumer awareness, agent banking and liquidity, DFS advocacy, elevating the strategic importance and funding initiatives.

The following recommendations will promote increased DFS awareness and understanding amongst consumers:

1. The promotion of DFS through embedded content in Nigerian movies which will serve as

a useful non-advertorial mechanism.

2. As radio remains an active channel, exclusive 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.
4. The digitisation of government salaries and other payments associated with the Social Investment Programmes (SIPs) and National Youth Service Corps (NYSC) and their settlement through alternate digital channels like mobile money. This initiative will require amendments to government payments guidelines.
5. The making of laws that institute instant settlement for risk-free transactions, especially for micro- and small business enterprises providing agency or merchant services - or possibly for the entire ecosystem. This proposal would require a review of the CBN transaction settlement framework.
6. Industry players should establish a lobby group to engage the National Assembly in formulating bills which would favour the cause of financial inclusion.
7. The need to elevate financial institution commitments to financial inclusion requires the amendment of regulatory guidelines amendment that stipulate the designation of an executive-level staff lead for financial inclusion initiatives.
8. Similar to the creation of the Universal Service Provision Fund (USPF), all DMBs 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 ECOSYSTEM

In addition to general improvements in the business environment, additional themes related to the DFS ecosystem include access to consumer behaviour research, the notion of a single financial services agent, enhancing the cashless concept and the elimination of multiple business registrations and taxes.

1. The need for the FSRCC to create a research and development framework that would increase the quantity and depth of research on the rural market. The structure should include the funding of research initiatives as well as making data public and available for relevant stakeholders to use.
2. Pension and insurance regulators, PENCOM and NAICOM, should review existing policies governing the retail of pension and insurance services through agents. To ease the transition and enhance agency attractiveness, a consolidated implementation framework that would enable them to offer these other financial services will be necessary.
3. The implementation of a harmonised referencing system that allows registration agents to share information.
4. Review of the regulations guiding licensing in the DFS space especially for new entrants. The proposal should focus on consolidating similar licenses and streamlining the requirements for each license category.
5. The issuance of cash handling penalties from consumer to merchants and from merchants to banks to make cash unattractive. Nonetheless, due to constraints that stalled the full implementation of the cashless policy, the CBN should manage the rollout and any decisions related to the cashless initiatives.
6. One-stop shop arrangements to manage tax and other revenue payments across all tiers of government and multiple agencies

is urgently required. Thus, fulfilling relevant amendments to existing Federal, State and Local Government tax legislation, policies and working arrangements will be necessary. Also, the Federal Government review of the Pioneer Status list now includes e-commerce, software development and publishing and business process outsourcing businesses to participants in the financial inclusion sector.

7. In the case of excessive, disparate and indiscriminate right-of-way (RoW) pricing for infrastructure by State Governments, the immediate implementation of the 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".

DFS INFRASTRUCTURE

The recommendations on DFS infrastructure mainly address provisioning (financing) and security, especially telecommunications equipment deployment.

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; also, existing spot rates should be revised downward and kept at par with rates obtainable in the forwards market deals, to enable operators to 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 the ward level 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 spectrums.
6. Complementing the efforts of the government in the identification and determination of critical national infrastructure would also require:
    a. The designation of critical national infrastructure according to the provisions of the Cybercrime Act and implemented by the President and National Security Adviser (NSA).
    b. Legislators should kindly expedite the passage of the Critical National infrastructure Bill.
    c. Adequate protection of telecommunication infrastructure nationwide should be prioritised.

Infographic 3: Market enabling policies for Financial inclusion in Nigeria

FINANCIAL INCLUSION

1

GLOBAL IDENTITY MANAGEMENT/ KNOW-YOUR-CUSTOMER (KYC)

Amend the National Identity Management Commission Act to allow other agencies (aside NIMC) and suitable private sector institutions to assist in data capture of citizens for the achievement of a universal identification number

Promote consumer awareness and education on the use and benefits of NIMC as well as provide adequate resolution mechanisms and financial resources.

Empirical assessment and review of existing KYC thresholds undertaken from time to time.

2

CONSUMER PROTECTION, PRIVACY AND DATA PROTECTION, CYBERCRIME AND FRAUD

Mandate zero-rated charges for level-1 customer transactions within their transaction threshold. Also, there should be zero-rated charges for the use of USSD services. Mandate DFS operators to disclose their fees and the actual cost of services to consumers.

FINANCIAL LITERACY

Support financial literacy and consumer education with content adaptation in local Nigerian languages. Develop a robust, interactive and localised National Financial Education Curriculum cutting across different financial services.

DATA PROTECTION

The inclusion of provisions that prohibit hacking, malware, and other forms of unauthorised access. Impose stiff penalties for disclosure, sale or unauthorised use or handling of customer data. The maintenance of fraud insurance for both the consumers and financial institutions in the event of fraud.

DISPUTE RESOLUTION

Establish online dispute resolution mechanisms and a clearing house for the redress of grievances. Provide cost-free consumer complaints resolution services, such as toll-free telephone lines.

CYBERCRIME AND DATA PROTECTION

Prevent re-assignment of SIM Cards in the event of de-activation. Blacklist rather than reassign. Promote cybercrime education, training and retraining for judicial officers, litigators, enforcers and prosecutors.

3

DFS ENVIRONMENT: INTER - OPERABILITY, COLLABORATION AND COMPETITION

Adopt market cross-subsidisation, such that one segment of the market (the high end - financially included) subsidises the other (the financially excluded).

Prescribe a specific and open application programming interface (API) for adoption by the various stakeholders within the DFS space.

Adopt a market-led approach to pricing DFS subject to regulation.

Amend the Copyright Act and the Patent and Designs Act to cover layouts and integrated circuits, as well as allow the registering of software as inventions. Also, update the Banking and Other Financial Institutions Act (BOFIA) and enact competition legislation.

4

ENABLING FINANCIAL INCLUSION AT THE LAST MILE

Amend government payments guidelines to allow the digitisation of government salaries, National Youth Service Corps (NYSC) allowances, Social Investment Programmes (SIPs) payments and others, facilitating their settlement through alternate channels like mobile money.

Amend regulatory guidelines to stipulate the designation of an executive-level staff lead for financial inclusion initiatives in every financial institution.

Promote DFS through embedded content in Nigerian movies as a useful non-advertorial mechanism.

Execute exclusive radio campaigns with financial inclusion programmes.

Use N-Power scheme beneficiaries as champions of financial inclusion messaging to the unbanked.

5

ENABLING ENVIRONMENT FOR DFS ECOSYSTEM

Implement the 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. This will curb excessive, disparate and indiscriminate right-of-way (RoW) pricing for infrastructure by State Governments.

Amend existing Federal, State and Local Government tax legislation and policies to make room for a one-stop shop arrangement which manages tax and other revenue payments across all tiers of government and agencies for financial inclusion players.

Review the regulations guiding licensing in the DFS space for new entrants. The review should consolidate similar licenses and streamline the requirements for each license category.

Create a research & development framework by the FSRCC to increase the quantity and depth of FI related research. Should include the funding of research initiatives as well as making data public and accessible.

Create a consolidated implementation framework that would enable agents to offer pension and insurance services. A review of existing policies governing the retail of pension and insurance services is required.

6

DFS INFRASTRUCTURE: POWER, COMMUNICATIONS, ROADS, SECURITY, ETC.

Provision of long-term intervention funds by the CBN at low-interest rates for rural telecommunication expansion.

Modify the CBN's Foreign Exchange (Fx) Policy to include telecommunication companies in the CBN Fx window to enable operators to pay for equipment and services critical to their network operations.

Review the Universal Access and Universal Service Regulation 2007 to ensure easier access to Universal Service Provision Fund (USPF).

Review the USPF and Nigerian Information Technology Development (NITDEV) Fund to promote the funding of enhanced rural telephony infrastructure and access in stipulated catchment areas.

Review of spectrum pricing policy by NCC for rural area penetration by telecommunication companies, thereby inducing cheaper or free spectrums.


AMA-ZUMA

STATE OF THE MARKET REPORT

PART 5

CONCLUDING REMARKS

CONCLUSION

Financial inclusion expands beyond banking and payments. It addresses economic development and gender inclusion goals which are also critical to national development.

The levers of financial inclusion fall across three pivotal nodes - the consumer (demand), the provider (supply) and the government (institutions) (Figure 121). The financial inclusion and financial access penetration strands highlight the opportunity size for financial inclusion - both among females and males.

Elements of the final piece addressing institutional frameworks and environments which should enable and promote adoption while protecting consumers have been identified in this report.

The financial access penetration charts further demonstrate the role and reach of informal financial services providers catering to the consumers classified as under-banked and unbanked. As documented in the 2016 State of the Market Report, the number of ecosystem providers and the investment in assets, resources and capabilities further demonstrates private sector support and buy-in of financial inclusion and DFS initiatives. Other studies and initiatives have addressed supply and demand perspectives, identifying constraints, enablers and levers of change but with little impact on financial inclusion. Elements of the final piece addressing institutional frameworks and environments which should enable and promote adoption while protecting consumers have been identified in this report. Yet, the adoption and implementation of these recommendations will be a litmus test for Nigeria.

The development of policies and an environment that truly promotes financial inclusion and DFS will require collaboration and cooperation from all stakeholders. In addition, financial inclusion is a national imperative that requires multiple institutions collaborating effectively. Yet, the domiciliation of the mandate with one entity, albeit the entity with oversight of the financial system, fails to recognise that financial inclusion impacts are far reaching and beyond the financial system. Thus, there must be the recognition of the financial inclusion as being instrumental to addressing sustainable development goals (SDGs) - eliminating poverty, gender inequality, hunger, and building economic growth is a starting point.

These SDGs pose serious challenges as well as opportunities for Nigeria's development. The poverty challenge, for example, is epidemic especially in rural Nigeria. A legislative bill establishing the National Poverty Eradication Commission (NAPEC) was passed in 2016 but is yet to become a substantive legislation. Financial empowerment and independence can be employed to address gender inequality and the rights of women. Easing of frictions in agricultural value chains would not only make Nigeria a food basket but also able to provide food for her own. Finally, the development of an efficient financial services agent network will increasingly provide employment to the millions of Nigerian youths; the digitisation of government payments will reduce the costs; the development of an enabling environment will enhance the abilities of Nigerian fintechs to produce and deploy homemade solutions that truly address our needs.

This will reduce the foreign exchange burden on software licenses, add to the job pool and promote Nigeria as a true participant of the information age. All these initiatives will ultimately lead to the much-needed economic growth that will not only address national issues but also support state and local goverments as they extend spheres of influence to households and communities. This economic growth will not only address national issues but will also support states and local

Addressing financial inclusion can be likened to killing multiple birds with one stone and as such, it calls for an inclusive approach that will have far reaching impacts on development.

governments as it commences with the individual and extends across the spheres of influence to households and communities. Hence, are considerations such as financial inclusion legislation or an independent agency that reviews policy whilst also facilitating intervention far-reaching? Addressing financial inclusion can be likened to killing multiple birds with one stone and as such, it calls for an inclusive approach that will have far reaching impacts on development. However, the range of market-enabling policy recommendations required to stimulate financial inclusion and DFS further highlight implementation and enforcement gaps attributed to capacity, institutional frameworks, political will and other factors that question the efficacy of current interventions.

While we acknowledge that there's no magic bullet financial inclusion solution, a better understanding of the levers of the pivotal dimensions, akin to a system of cog wheels, alongside appropriate implementation instruments is essential. Nigeria's commitment to 20 percent financial inclusion by 2020 must be sought with concerted efforts. Forecast estimates using 2008 - 2016 trends (Figure 122) show marginal progress, with increases in the banked and under-banked, but a significant decline in the unbanked. The race to 20 percent financial exclusion in 2020 is fast approaching and would require monumental interventions to close the gaps.

Figure 121

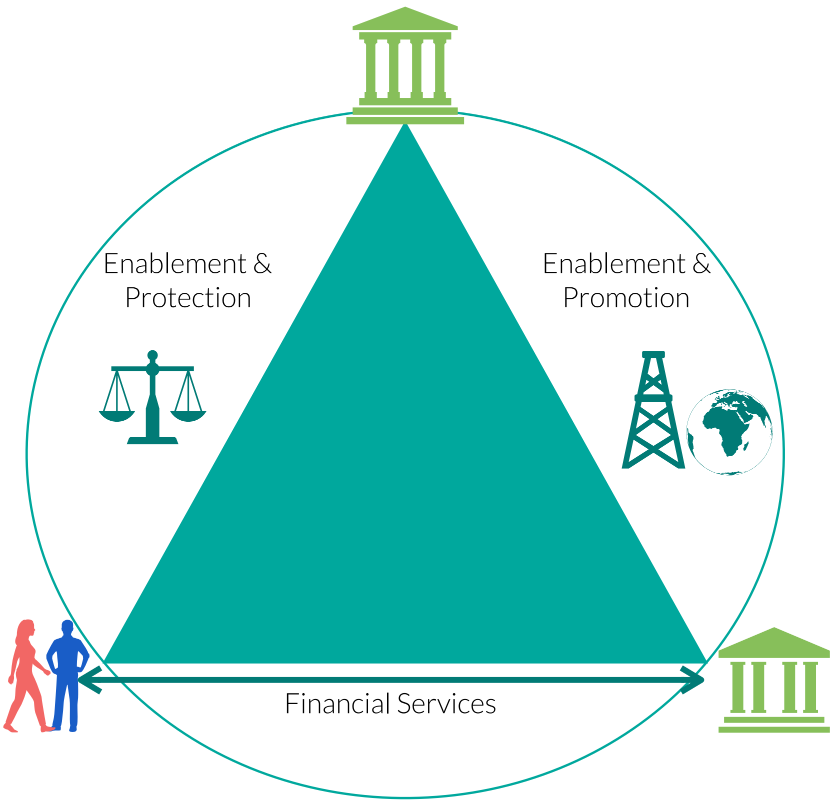
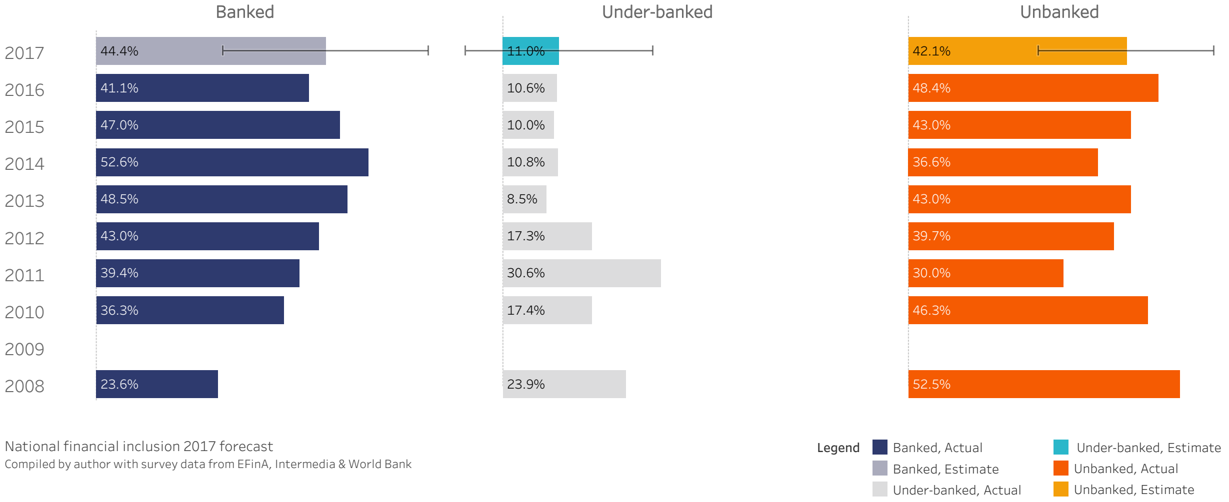


Figure 122



National financial inclusion 2017 forecast
Compiled by author with survey data from EFinA, Intermedia & World Bank

STATE OF THE MARKET REPORT

PART 6

APPENDICES

I: Legal and Policy References

Laws

Banks and Other Financial Institutions Act (as amended)	The Banks and Other Financial Institutions Act ("BOFIA") is a statute passed by the National Assembly. It was promulgated in 1991 and has been subsequently amended. BOFIA provides regulatory oversight for the operation of banks and financial institutions within Nigeria and outlines legislation on the operational framework for optimal performance.
Capital Gains Tax (CGT) Act	The Act is the primary piece of legislation governing the remittance to the Federal Government of gains on the disposal of an asset within Nigeria.
Central Bank of Nigeria Act (as amended)	The Central Bank of Nigeria Act is a statute passed by the National Assembly. It has been passed and repealed several times, with the latest iteration passed in 2007. This act is primarily concerned with regulation of the Central Bank of Nigeria ("CBN") as well as the operation of banks and financial institutions, particularly the regulation of banking systems and oversight of operations within Nigeria.
Companies and Allied Matters Act (as amended)	The Companies and Allied Matters Act ("CAMA") is a statute passed by the National Assembly. It was passed in 1990, but has been subsequently amended. CAMA is principally focused on the regulation of companies and specifically provides for the incorporation of companies and incidental matters, registration of business names and the incorporation of trustees of certain committees, bodies and association.
Companies Income (Amendment) Tax Act 2007	This act is the primary legislation governing the remittance of company tax to the Federal Government. The act as amended, recognises the operation of the Federal Board of Inland Revenue as the operational arm of the Federal Inland Revenue Service. The act is the basis for taxation of all companies operating within Nigeria, or companies whose gains are accruable to operation in Nigeria.
Consumer Protection Council Act	The Consumer Protection Council ("CPC") Act is a statute that creates the CPC, which is an agency of the Federal Government, under the supervision of the Federal Ministry of Trade and Investment, charged with ensuring consumer safety. Its mandate is to eliminate dangerous products and provide quick resolution of complaints for consumers.

Cybercrimes (Prohibition, Prevention, Etc) Act	The Cybercrimes Act is a statute passed by the National Assembly. It was passed in 2015. The act provides an effective, unified and comprehensive legal, regulatory and institutional framework for the prohibition, prevention, detection, prosecution and punishment of cybercrimes in Nigeria. It offers protection against misuse of online and other digital platforms, which will hopefully lead to the protection of DFS platforms.
Economic and Financial Crimes Commission Establishment Act	The Economic and Financial Crimes Commission ("EFCC") Act was passed by the National Assembly. It was passed in 2004.
Evidence Act	The Evidence Act 2011 is an evolution in the law of evidence in Nigeria. It is a culmination of the foundation for laying evidence before Nigerian courts, and sets out the principle, procedure and practice for relevance and acceptance of evidence in both criminal and civil cases, before Nigerian courts. The most recent provision which has introduced novel principles and concepts into jurisprudence has been the acceptability of computer generated evidence; which has heralded a new era in the practicality of the law of evidence.
Financial Reporting Council of Nigeria Act	The Act was passed by the National Assembly in 2011. It creates the Financial Reporting Council ("FRC"), which replaced the Nigerian Accounting Standards Board. The FRC is a unified independent regulatory body for accounting, auditing, actuarial, valuation and corporate governance.
Foreign Exchange (Monitoring & Miscellaneous Provisions) Act	The Foreign Exchange (Monitoring & Miscellaneous Provisions) Act is a statute. It was passed in 1995. The act prescribes the circumstances under which foreign currency may be used as a means of exchange in Nigeria.
Independent Corrupt Practices and Other Related Offences (ICPC) Act	Enacted in 2000, this legislation seeks to prohibit and prescribe punishment for corrupt practices and other related offences committed. Importantly, it establishes the Independent Corrupt Practices Commission which is the body charged with the responsibility of receiving and investing reports of corruption. This body is also able to prosecute the offenders to the fullest extent of the law, within the Nigerian judicial system.
Industrial Development (Income Tax Relief) Act	The act provides a framework for incentives proscribed for different industries and sectors for participants (both local and foreign) in the Nigerian economy. The act provides for the grant of pioneer relief status, and tax incentives for various industries.

Insurance Act	The Insurance Act is a statute passed by the National Assembly. It was passed in 2003. The act provides general oversight, procedure and legislation for the insurance industry in Nigeria.
Investment and Securities Act (ISA)	The Investment and Securities Act ("ISA") is a statute passed by the National Assembly. The current iteration was passed in 2007, completely repealing the 1999 Act. ISA is primarily concerned with the regulation of capital market and public companies.
Labour Act	Enacted in 1990, this is the primary legislation that provides for the terms of employment relations in Nigeria. It stipulates the minimum standards of employment for employees engaged with Nigerian employers and covers areas such as termination, leave, remuneration and conditions of work.
Lagos State Local Government Levies (Approved Collection List) Law	Passed in 2010, this act provides for harmonisation of the rates of taxes accrued at the level of the local government. The law lists the approved taxes that may be collected by local governments, and criminalises any collections outside of those stated therein.
Money Laundering (Prohibition) Act	The Money Laundering (Prohibition) Act is a statute passed by the National Assembly. It was passed in 2011, repealing the previous 2004 Act. The act makes comprehensive provisions in relation to AML and CFT regulations in Nigeria.
Moneylenders Law (State Law)	The law proscribes the framework for the operation of moneylenders within Lagos, including registration/certification and licensing, and the due returns that must be made to governmental bodies.
National Deposit Insurance Commission Act	The National Deposit Insurance Commission ("NDIC") Act is a statute passed by the National Assembly. It was passed in 2006 to repeal and replace the 1988 statute.
National Identity Management Commission (NIMC) Act	The Act establishes the National Identity Management Commission as the authority charged with maintaining the national database of Nigerian citizens and residents, and proscribes the provisions for a multi-purpose National Identity Card.
National Information Technology Development Agency Act	The National Information Technology Development Agency ("NITDA") Act is a statute passed in 2007 by the National Assembly.

National Insurance Commission Act	The Nigerian Insurance Commission ("NAICOM") Act is a statute passed by the National Assembly passed in 1997 to establish NAICOM.
National Lottery Act, 2005	Enacted in 2005, the Act provides for the operation of the national lottery and establishes the National Lottery Regulatory Commission, as the body charged with responsibility for the regulation of the business of national lottery in Nigeria as well as the establishment of a National Lottery Trust Fund
National Office for Technology Acquisition and Promotion Act (as amended)	The National Office for Technology Acquisition and Promotion Act was passed in by the National Assembly. It was initially passed in 1979 but has been subsequently updated.
Nigeria Copyright Act	The Copyright Act allows for the protection of literary works, under which it lists "computer programs." It defines a computer program as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result," and thus, includes software.
Nigerian Communications Act	The Nigerian Communications Act is a statute passed by the National Assembly. It was passed in 2003, repealing the previous laws such as Nigerian Communication Commission Act. This act provides the regulatory framework for the communications industry.
Nigerian Investment Promotion Commission Act	The Nigerian Investment Promotion Commission ("NIPC") is the Federal Government Agency in Nigeria established by the NIPC Act to promote, co-ordinate and monitor all investments in Nigeria. The NIPC is also charged with the responsibility of registering foreign investments in Nigeria. All companies with foreign shareholders are required to register with the NIPC.
Patent and Designs Act	The Patent and Designs Act is a statute passed by the National Assembly. It was promulgated in 1990. This is the governing patent law in Nigeria and prescribes if and whose product may be granted the statutory rights.
Pension Reform (Repeal & Re-Enactment) Act	The Pension Reform Act is a statute passed by the National Assembly. It was passed in 2014. The act is principally focused on providing adequate guidelines towards an overhaul and reform of the pensions sector.

Secured Transactions in Moveable Assets Act	The act provides that micro, small and medium enterprises (MSMEs) in Nigeria can register their movable assets (such as motor vehicles, equipment and accounts receivables) in the National Collateral Registry, and use these moveable assets as collateral for accessing loans. This in turn, will increase their chances at accessing financing. Thus, the legislation tackles one of the major obstacles faced by MSME.
Taxes and Levies (Approved List for Collection) Act	This act, passed in 2015, provides a robust scope of the approved taxes and levies to be remitted to the Federal Government of Nigeria. The aim of the act is to ensure transparency in tax collection and prevent misrepresentation of taxes.
The Constitution (as amended)	The constitution is the supreme law of Nigeria. The constitution was initially promulgated in 1999 but has subsequently been amended. The constitution in general provides a set of fundamental principles according to which the state is run.
Value-added Tax (VAT) Act	Enacted in 1993, the act provides for imposition and operation of VAT in Nigeria. The act imposes VAT on the supply of all taxable good and services, including imports.

Bills

Title	Description
Payment System Management Bill	This bill is for an act to provide for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in Nigeria. While it has yet to come into law, we shall review some of its germane provisions.
Competition and Consumer Protection Bill	This is a bill presently before the National Assembly which combines the regulation of Competition and Consumer Protection. It aims to repeal the Consumer Protection Act and establish the Federal Competition and Consumer Protection Commission and the Competition and Consumer Protection Tribunal for the development and promotion of fair, efficient and competitive markets in the Nigerian economy, facilitate access by all citizens to safe products, and secure the protection of rights for all consumers in Nigeria.
Electronic Transaction Bill	This bill is designed to facilitate electronic transactions in Nigeria. Issues raised in the act are germane for Nigerians to become active players in e-commerce, the enabling legal environment to enable electronic transactions need to be created in order to ensure equal opportunities, equality and economic development.

Policies

Title	Description
CBN Biometric Verification Number Policy, 2014	In 2014, the Central Bank of Nigeria introduced a centralised biometric solution which, when fully implemented, will enable financial institutions to carry out fingerprint identification and validation for customers' transactions on ATMs, POS machines, and over-the-counter. This Bank Verification Number (BVN) is linked across accounts and uniquely imprinted for each customer.
CBN Circular and Exposure Draft on the framework for BVN Operations and Watchlist	The exposure draft sets out a framework for the operation of BVN within the Nigerian economy and in addition establishes the process of identification of persons established as fraudulent, on a CBN controlled 'watchlist'. The exposure draft sets put the different stakeholders to the operation of the BVN, and the obligations of each of them.
CBN Circular on the Industry Policy on Retail Cash Collection and Lodgement (CBN Cashless Policy), 2011	This circular was issued on the April 20, 2011, and its primary focus is on the National policy on cash collection and lodgement in Nigeria. Please note that an update was made to this circular, on March 16, 2012, increasing the daily cumulative cash withdrawals from N150,000 to N500,000 for individuals and N500,000 to N3,000,000 for corporate account holders; reducing the processing fees for withdrawals and for lodgements, and creating exemptions for lodgements operated by government and government agencies).
CBN Financial System Strategy 2020, 2009	This strategy was issued by the Central Bank of Nigeria in 2009 with the aim of creating strategic plans to herald Nigeria's financial systems to the level of major top tier financial institutions globally. The strategy highlights core issues like globalisation, increase in capital flow and rise in global merchandise exports as core drives for the implementation of the strategy. It further seeks to emulate the working structures already put in place by top work countries which has made their financial structure seamlessly functional.
CBN Framework for the Licensing of Super-Agents, 2015	This policy document, released in 2015, sets out the regulatory framework for licensing of super agents, including minimum standards for operability, documentary requirements, fee sharing formula for transactions and dispute resolution procedures.
CBN Microfinance Policy, Regulatory & Supervisory Framework	The framework was established in 2005 with the aim of increasing the availability of financial services to under-served sectors of the market by providing a framework for the establishment of micro finance banks in Nigeria. The policy document sets out the licensing requirements, ownership, supervision and regulation of micro finance banks.

CBN National Financial Inclusion Strategy, 2012	The strategy was introduced in January 2012, following an in-depth study of the percentage of adult Nigerians excluded from the provision of financial services. The studies conducted showed that a total of 46.3% of adult Nigerians are excluded from financial services and thus aims to reduce this number to at least 20% by 2020. The strategy also aims to increase the number of Nigerians included in the formal sector of financial services to 70% by 2020 from the present 36.3%.
CBN Nigeria Payments System Vision 2020, 2013	The CBN announced a Payments Systems Vision in 2013, the goal being to ensure safe and secure payment infrastructure as a means to achieving financial stability in Nigeria. It highlighted the need to upgrade the payment systems operational in the country in line with global best practices. Following the creation of working groups comprising all the industry stakeholders, the CBN was able to come up with the Payment System Vision 2020 that encapsulated the campaign for an inclusive and more robust e-channel payment system. The policy hence created a roadmap for payment infrastructure that took into cognisance end users, service providers, regulators and the international community.
CBN Regulatory Framework for Mobile Money Services, 2015	The framework published in 2009 seeks to identify the current challenges associated with an all-inclusive mobile money service and offers a regulatory framework towards a wider acceptance and usage, thus creating a path towards achieving international best standard and practice for money transfers.
National Information and Communication Technology Policy, 2012	The policy was released in 2012 with a summary of its objectives being to promote efficient national development through an empowerment of Nigerians to participate in software and IT developments and to ensure that Information Technology resources are readily available. This process involves the establishment of strategies aimed at developing IT across all areas thus creating a country fully integrated and up to date with international IT standard developments.
National Information and Communication Technology Roadmap 2017	The roadmap was developed as a three (3) year action plan, in a bid to ensure development of the ICT sector in Nigeria and focuses on Governance, Policy, Legal & Regulatory framework, Industry & Infrastructure and Capacity Building, in an attempt to ensure parallel development of the Nigerian economy with international best practice in ICT.

NCC License Framework for Mobile Payment System, 2014	These regulations guide the operation of value added services in the mobile banking system, within Nigeria, as well as the requirements for obtaining a mobile payments licence. The guidelines were created to ensure standardisation of approval of equipment and platforms that ride on the networks of mobile network operators (MNOs) and to this end to ensure interoperability and uninterrupted quality of service on the MNOs in the provision of value added services.
NCC License Framework for Value Added Services, 2014	These regulations cover the provision of value added services (VAS) generally in mobile telephony operation. The framework covers VAS providers, application providers, VAS aggregators, and network operators. By this definition, therefore, a VAS provider can combine the role of the first three and leverage on the infrastructure of the network operator to provide the service.
NITDA Guidelines on Data Protection, 2013	The National Information Technology Development Agency NITDA Guidelines prescribe minimum data protection requirements for the collection, storage, processing, management, operation, and technical controls for information and is currently the only set of regulations that contains specific and detailed provisions on the protection, storage, transfer or treatment of personal data.
Operations of Pension Fund Administrators, 2012	The guidelines provide a framework for operation of pension fund administrators (PFA), as solely responsible for the management of retirement savings accounts (RSA). The guidelines provide minimum standard of IT requirements (software, hardware and servers) for each PFA, with the overall aim being the free flow of information from the PFAs and the National Pension Commission.

Regulations

Title	Description
Anti-Money Laundering Combatting Financing of Terrorism Compliance Manual, 2010	The regulations issues by the CBN provide for minimum standards of compliance for in a bid to combat financing of terrorism, by Nigerian financial institutions, within the regulatory purview of the CBN. It allows the CBN enforce these protections and provides key KYC indicators for financial institutions operating in the economy.
CBN Consumer Protection Framework, 2016	In a bid to promote financial stability and foster customer confidence, the CBN issued these regulations in 2016 as minimum standards of protection afforded to customers in the Nigerian economy by ensuring high standards of customer service and added safeguards against manipulation of customers.

CBN Guidelines for Card Issuance and Usage, 2014	The guidelines were developed to provide minimum standards for the issuance and usage of payment cards in Nigeria and thus provide requirements to be met by card issuers including licensed banks and other financial institutions, the resulting effect being to encourage the usage of Nigerian issued cards locally and internationally.
CBN Guidelines For Licensing, Operations, & Regulation of Credit Bureaus	The objective of the guidelines issued by the CBN is to define the licensing, operational and regulatory requirements for a privately-owned credit bureau operating in Nigeria. It provides for licensing, operational standards and mandatory returns to be made of the CBN.
CBN Guidelines for Stored Value/Prepaid card issuance and operations, 2012	The revised guidelines sets minimum standards and requirements for the operation of stored value/prepaid card issuance and operations. The guidelines provide that only deposit-taking banks or financial institutions licensed by the CBN with clearing capacity shall issue stored value/prepaid cards.
CBN Guidelines for the Direct Debit Scheme and Bill Payments, 2017	Issued in January 2017 pursuant to the CBN's mandate to develop electronic payment systems in Nigeria, superseding the previous Guidelines for Direct Debits issued by the CBN.
CBN Guidelines for the regulation of agent banking and agent banking relationships, 2013	The guidelines provide detailed regulation of agent banking, which is defined as provision of financial services to customers by a third party (agent) on behalf of a licensed deposit taking financial institution and/or mobile money operator (principal). The guidelines define an agent as an entity that is engaged by a financial institution (the principal) to provide specific financial services on its behalf using the agent's premises.
CBN Guidelines on Instant Electronic Funds Transfer, 2016	These guidelines were issued in December 2016 and sets out the procedures for the operation of instant (inter-bank) electronic funds transfer (EFT) services in Nigeria, and provides the framework for the standard operation of EFT services.
CBN Guidelines on international mobile money remittance service, 2014	In 2009, the CBN introduced the Guidelines on Mobile Money Services in Nigeria as a framework for the operation of mobile money services in the country. However, the guidelines did not include the operation of mobile money services in currency other than the Nigerian Naira, and therefore left a lacuna in its operation. The Guidelines on International Mobile Money Remittance Services in Nigeria were developed to cater to this defect.

CBN Guidelines on International Money Transfer Services	This provides the framework for the operation of international money remittance services by banks and financial institutions within Nigeria. The guidelines provide for licensing requirements, operational standards and dispute resolution procedures.
CBN Guidelines on Mobile Money Services, 2015	These guidelines address business rules governing the operation of mobile money services, and specify basic functionalities expected of any mobile payment service and solution in Nigeria.
CBN Guidelines on Operations of Electronic Payment Channels, 2016	The guidelines were introduced in April 2016, and they provide minimum standards for the operation of electronic payment services within Nigeria, and are detailed regulations on minimum requirements of participants to ensure safety and transparency.
CBN Guidelines on three tiered KYC requirements, 2013	The guidelines were issued by the CBN in January 2013 in an effort to ensure the financial inclusion of a larger percentage of Nigerians and to ensure that both socially and financially disadvantaged persons are not precluded from opening bank accounts simply for lack of acceptable means of identification.
CBN Guidelines on Transaction Switching, 2016	These guidelines were issued by the CBN in April, 2016 as superior to the Guidelines on Transaction Switching Services and the Operational Rules and Regulations for the Nigeria Central Switch (NCS), providing guidelines of conformity for operators of switching services in Nigeria, including switching companies, Nigeria Central Switch (NCS), card users and merchant acquirers.
Competition Practices Regulations, 2007	Provided by the NCC, these regulations govern the activities of operators in the Nigerian economy, and provides for a framework for identification of anti-competitive activities and lessening of competition in various sectors, with applicable penalties for breach of the guidelines.

Consumer Code of Practice Regulations, 2007	Provided for by the NCC, these regulations provide further definition of the procedures and substantive requirements for developing consumer codes to govern the provision of services by licensed telecommunications operators in Nigeria and related consumer practices. The specific objectives of these regulations are to confirm and clarify the procedures to be followed by licensees in preparing approved consumer codes of practice and to determine and describe the required contents and features of any consumer code prepared by, or otherwise applicable to licensees.
Consumer Protection (Products & Services Monitoring & Registration) Regulations, 2005	The regulations provide minimum standards applicable to the production and distribution goods and services produced and consumed within Nigeria, and their registration, licensing and circulation in Nigeria.
Deposit insurance guidelines on the mobile payments system (MPS), 2016	Issued by the NDIC, the guidelines afford protection to mobile phone users within Nigeria, in the operation of mobile insurance schemes and services to end users, via an increasing amount of digital platforms and telecommunications networks. It aims to foster customer confidence and increase financial inclusion in the economy.
License Framework for Mobile Payment System, 2014	Issued by the CBN, the framework seeks to provide for an enabling environment for the adoption of mobile payment services in reducing cash dominance in the Nigerian economy, to set out the roles and responsibilities of all stakeholders and operators and to provide minimum technical and business requirements for the various participants recognised for the mobile payments services industry in Nigeria.
NAICOM Independent Agents Operational guideline	These guidelines provide a framework for the operation of insurance agents, and set out roles, responsibilities and mandatory licensing and returns to the NAICOM.
NAICOM Mutual Organisations, Associations, Community Based, Micro guidelines	The guidelines set out the framework for the operation of micro/ community based insurers within the industry.
NAICOM State Government's Implementation of Compulsory Insurance (or State Financial Advisers) guidelines	These guidelines were developed to increase the uptake of compulsory insurance across all sectors of the economy by detailing guidelines to ensure compliance of insurable persons.

NAICOM Web Aggregators Operational Guidelines	Developed in 2017, these guidelines provide a framework for the operation of web aggregators in the insurance industry; including minimum standards for operation and mandatory licensing requirements.
NCC Code of corporate governance for the telecommunication industry, 2016	The code was developed by the Nigerian Communications commission in 2016. The code was issued to improve the standard of corporate governance practices amongst telecommunication entities. Noteworthy is the fact that the code recognises and adopts the provisions of the Companies and Allied Matters Act ("CAMA") especially in relation to the responsibilities of directors and officers of the licensee as baseline where the stipulations of the code are not declaratory.
NCC Consumer code of practice regulations, 2007	The regulation was issued in August 2007 with specific objectives being to "confirm and clarify the procedures to be followed by licensees in preparing approved consumer codes of practice, and to determine and describe the required contents and features of any consumer code prepared by, or otherwise applicable to, licensees". The regulation applies to all licensees and service providers within the telecommunications industry of Nigeria.
NCC SIM registration initiative, 2013	According to the Nigerian Communications Commissions (NCC), the Subscriber Identity Module (SIM) registration initiative - which required all mobile phone subscribers to register their SIM cards with their respective mobile network operators - was designed to capture the identity of mobile phone subscribers for identity and security management and was officially concluded by the NCC on June 30, 2013.
Revised Operational Guideline for Bureaux De Change, 2016	The regulations provide for the operations of BDCs within Nigeria, and provided added regulations for promotion of financial stability. The regulations include provisions over licensing and auditing of the activities of registered BDCs.
SIM Registration initiative, 2013 Regulation of Telephone Subscribers (RTS) Regulation	These regulations commenced the mandatory provisions for SIM operators in Nigeria. It establishes the operation of a central database by the NCC, registration of new and existing subscribers to telecommunications networks and penalties for non-registration.

II: Alternative Regulatory Tools: Sandboxes

SANDBOX TYPES

Sandboxes are either regulatory or industry. Regulatory sandboxes are regulator-driven and focus on driving adoption of innovations that deliver superior consumer outcomes. On the other hand, industry or virtual sandboxes are supplementary and enable industry players to self-organise and provide a knowledge-sharing and communication channels and fora, as well as an optional certification facility as part of the regulatory process. Table 3 presents distinguishing characteristics of regulatory and industry sandboxes.

Table 3: Regulatory vs. Industry sandboxes

	Regulatory	Industry/Virtual
Focus	Provide test environment for evaluation of innovative products and services and business models	
Goal/Objective	Consumer engagement	Industry collaboration/testing towards functional acceptance
Scope	On-market (involves consumers)	Off-market (consumers excluded)
Participants	FinTechs Consumers Regulators	FinTechs Other industry actors
Regulatory Compliance	Existing regulations may be relaxed/ waived in sandbox period	N/A
Regulatory Implications	Creation of bespoke/amended regulator framework	None
Eligibility	Meet requirements and criteria of regulator	N/A

REGULATORY SANDBOX

Regulatory sandboxes are a new approach used to address the FinTech incursion and regulatory uncertainty in financial services industry. The sandbox is s "safe space" where financial service innovations can be tested in a "live" environment, without the full burden of regulation while still safeguarding consumer protection.

In October 2014, the United Kingdom's Financial Conduct Authority (FCA), launched Project Innovate[28], a sandboxing concept. Project Innovate adopted evidence-based decision-making and pilot testing of all FinTech innovations. Even though sandboxes promote experimentation, they are not open-ended and have predefined restrictions[29] including but not limited to testing under regulatory

28 Project Catalyst launched by the US Consumer Financial Protection Bureau in 2012 was instrumental in conceptualising Project Innovate. Project Catalyst focused on specific consumer issues - financial inclusion and easy payments.

29 Shoust, P., & Ryabkova, E. (2016). Regulatory Sandboxes. Regulation as a Service. Russian Electronic Money Association.

supervision, client population or transaction limitations (sample size), limited test periods (time limit), etc. Sandboxes provide the much needed regulatory clarity to support FinTechs innovations, minimise uncertainty levels and improve access to investments and also improve collaboration and cooperation between stakeholders and regulators.

ESTABLISHED AND EMERGING SANDBOXES

Since their introduction and adoption by regulators in 2014, sandboxes are a novel regulatory tool for testing innovations and creating a conducive working environment for FinTechs. Figure 123 highlights established and emerging sandbox implementations worldwide.

Figure 123

Global sandbox deployments (established and proposed)
Source: complied by authors from various sources

III: Consultative Working Group

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Forum Communique

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:

1. 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.

2. Debated the various issues relating to DFS and financial inclusion.

3. 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.

4. Identified the following key policy and legal issues:

5. Noted the importance of enforcement mechanisms that ensure compliance with extant policies, regulations and laws.

6. Noted insufficient regulatory oversight to curtail unduly high prices of services for consumers.

7. Observed the disconnect between the marketplace reality and provider/regulator perspective and the need for practical policy proposals.

8. Noted the importance of consumer awareness of DFS services, guidelines and laws protecting their rights as well as inadequate consumer communication and redress channels.

9. Highlighted the key challenge being consumer distrust of financial services and financial institutions.

10. 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,

11. Noted the need for provider acceptance of such challenges and the development of trust-building financial services and practices.

12. Noted that failure to effectively address this key constraint would render any policies and policy reform efforts redundant.

13. 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**
>
> 1. 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.
>
> 2. 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.
>
> 3. 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:

Supporting financial literacy and consumer education with content adaptation in local Nigerian languages.

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.

Enacting unfair contracts terms legislation, beyond the provisions in the Electronic Transactions Bill. 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:

Provisions that prohibit hacking, malware and other forms of unauthorised access.

Stiff penalties against disclosure, sale or unauthorised use or handling of customer data.

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:

- The provision of fidelity bond insurance in extant guidelines is acknowledged. However, enforced implementation across financial services is required.
- Insurance against fraud for both the consumers and the financial institutions in the event of fraud should be maintained.
- To enhance information security, enforcement of a legal framework for reporting infractions in a more transparent manner to deter breaches should be introduced.
- Elimination of unnecessary costs of identity verification.
- Adequate requirements for operators to protect data from hacking, malware and other unauthorised access should be issued.
- 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:

- Online dispute resolution mechanisms and clearing house for redress should be established.
- 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.
- Effective measures, processes and procedures to prevent systemic failures of consumer redress should be instituted in all relevant organisations.
- Establishment of a consumer ombudsman, mediation services, arbitral organs and courts that finalise consumer complaints within 21 days.
- Establish consumer redress mechanisms at the level of agents in remote locations.
- Provision of cost-free consumer complaints resolution services, such as toll-free telephone lines.
- Policies that promote proactive consumer protection.
- 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:

- Developing regulations that require minimum ICT security standards for financial inclusion and up to date training for ICT staff.
- Ensuring that banks maintain updated security clearance for employees.
- Reviewing existing regulation on SIM card re-assignment. NCC should consider the possibility of blacklisting rather than re-assignment.
- 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.
- Developing a framework that guides a working relationship between the ecosystem and law enforcement agencies that makes interaction less cumbersome.
- 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

1. To increase DFS awareness and understanding, the following recommendations were made:
2. Promote DFS through embedded content in Nigerian movies which will serve as an effective non-advertorial mechanism.
3. As radio remains an effective channel, special airtime slots for financial inclusion programmes should be made available.
4. 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

The implementation of a harmonised referencing system that allows registration agents to share information was proposed.

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[30] to participants in the financial inclusion sector should be effected.

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

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.

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

- CBN should avail long term intervention funds at low interest rates for rural telecommunication expansion.
- 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.
- The Universal Access and Universal Service Regulation 2007 should be reviewed to ensure easier access to Universal Service Provision Fund (USPF).
- 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.
- 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:
- 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).
- Legislators should kindly expedite the passage of the Critical National infrastructure Bill.
- Adequate protection of telecommunication infrastructure nationwide should be prioritised.

NOTES

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