Volume 2 | Issue no. 6 | June 2021

SUSTAINABLE + INCLUSIVE
DIGITAL FINANCIAL SERVICES

POLICY TRACKER

A Monthly Bulletin of Financial Inclusion Policy Developments

LAGOS BUSINESS SCHOOL
PAN-ATLANTIC UNIVERSITY

Editor's Note

Financial Consumer Data Protection

Data privacy and protection is an important aspect of financial consumer protection and increases in significance as digitalisation of financial services increases. Given that digitalisation is the ongoing rave and definitive face of banking and financial services and the game shaping disruptive and transformative phase of financial innovation the need for data protection is more important than ever. There are indeed positive sides, including growth in financial inclusion in digitalisation. The ability to construct a digital trail and profile of the underserved may reduce credit risks, for example. The process of digitalisation may also lower the cost to serve and mining of data may spur product innovation, new players and market development insights. Likewise, digtialisation may open up new or more insidious risks, including novel types of theft or fraud, discriminatory profiling that promotes financial exclusion, digital security incidents, manipulation of consumer's choices and behaviour, identity theft and so on.

The results of a survey[1] reported in this month's Tracker about the widespread ignorance, non-observance and even serial breaches of the data protection and privacy regulation in Nigeria is concerning. The report reveals that: "Only 30 per cent of Nigerian businesses are aware of the Nigeria Data Protection Regulation (NDPR) and privacy laws. Up to 45 per cent of businesses allow third-party access to customer data to share content on social media (62 per cent), gather analytics on their website visitors (35 per cent) and for digital ad platforms. SME's raised concerns with NDPR, either because it increased complexity (36 per cent) or their cost of governance (34 per cent), although all businesses are required by it to appoint a Data Protection Officer (DPO)."[2]

The report about lack of awareness of the NDPR may possibly be overcome with more publicity and public education. However, one wonders whether the ease with which third parties are allowed to access customer's data will materially reduce with more knowledge of the requirements of regulation. Apparent hard-nosed commercial imperatives of survival or business models viability seems to drive the negative behavior. Is it practically feasible to expect the extant regulatory regime based on self-reporting and targeted enforcement action to effectively police, talk less change market conduct and business behavior? Is the cross section of players even sufficiently knowledgeable and capable of taking adequate measures against cybercrime and other morphing cybersecurity risks?

The practical and negative cost implications of compliance signposted by SME's also raises concerns about the feasibility and practicality of the current regulatory strategies and processes. How can regulators effectively police such a wide market of players? How can they do so

[1] Ventures Africa, Survey: 70 Per Cent of Nigerian Businesses Are Unaware of Privacy Laws Governing Their Marketing Activities, 18 June 2021. Available at: https://venturesafrica.com/teamapt-announces-successful-series-b-funding-round/

[2] June Policy Tracker, page ….

in the face of deep and pervasive financial, technological or digital and other illiteracy? How realistic is it to expect informed consent to data collection from such consumers?

These questions again make relevant the note on new approaches to data protection by CGAP (Consultative Group to Assist the Poor).[3] Appositely, CGAP observes that: "In countries where literacy rates are low, language barriers high, and connections unreliable, customers are even less able to give informed consent." It remarks that the informed consent model of data protection is western oriented and perhaps institutionally unsuitable for emerging and developing economies. Suggested policy options include placing responsibility for data protection on providers rather than consumer consent. They suggest two options: allowing consumers to directly access their data and to correct and port data free of charge or allowing consumer representatives (associations, say) to review consumer's data profiles and assess algorithmic models, so as to obviate any bias that drives financial exclusion. They also suggest that financial sector stakeholders may pool their resources to establish shared, regional cybersecurity resource centers.

It is a moot point whether these policy options are innately sufficiently practical or optimal in side-stepping the strictures raised against the current regime of protection. However, they invite us to critically review existing approaches and invite innovation to address the difficult issues of public policy or "wicked problems"[4] of data protection. They at least suggest that more evidence based approaches, greater sensitivity to institutional and cultural context and more innovative thinking, may be required for effectively confronting the issues of digitalisation, data protection and financial consumer protection.

Professor Olawale Ajai

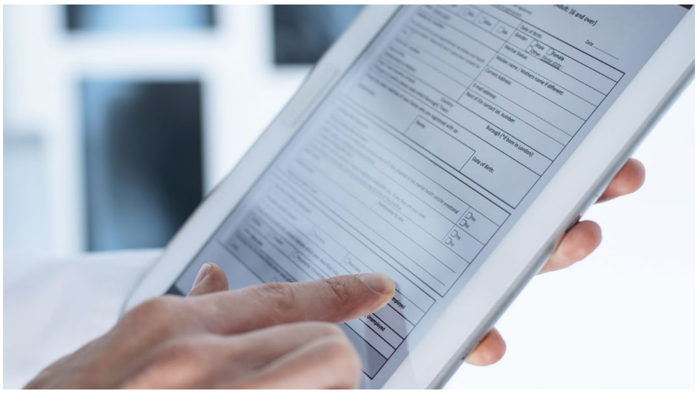
Professor of Legal, Social & Political Environment of Business, Lagos Business School

[3] CGAP (Consultative Group to Assist the Poor), New Approaches To Data Privacy And Protection. Available at: https://www.cgap.org/topics/collections/new-approaches-data-privacy-protection

[4] Cf., Head, B. W. (2018). Forty years of wicked problems literature: forging closer links to policy studies, Policy and Society, Vol. 38, No. 2, 180-197.

Global Identity Management / Know Your Customer

6th extension of NIN registration deadline



The Federal Government has, for the sixth time, extended the National Identification Number (NIN) registration deadline to July 26, 2021. 57.3 million Nigerians now have their NINs, with an average of three to four SIMs each.[5]

Tiered KYC registration efficiency

A study has revealed that 71 per cent of banks complete the onboarding of Tier 1 customers in one day compared to one week or more for Tier 2 and 3 customers.[6] Up to 30 per cent of customers find the KYC process time consuming and do not complete it, whilst 48 per cent of respondents expressed dissatisfaction with the account opening process in their banks. Meanwhile, 85 per cent of respondent banks said the KYC process may cost anywhere from below N50 million to N400 million per annum and constitutes a high cost to their operations.

Cost of KYC registration

A KPMG report shows that banks in Nigeria spend billions of naira annually implementing KYC, a critical regulatory tool aimed at reducing money laundering, financial terrorism and corruption, especially in public finance management. This spending depends on the customer base of the individual bank. Banks spend between N50 million to N400 million per annum.

Also, 15 to 30 per cent of customers who start the process fail to complete it due to extensive information requirements, manual approach, and time. A single process may take up to four weeks or more. [7]

Consumer Protection, Privacy and Data Protection, Cybercrime and Fraud

Customer data privacy

A study has revealed that only 30 per cent of Nigerian businesses are aware of the Nigeria Data Protection Regulation (NDPR) and privacy laws.[8] Up to 45 per cent of businesses allow third-party access to customer data to share content on social media (62 per cent), gather analytics on their website visitors (35 per cent) and for digital ad platforms. SME's raised concerns with NDPR, either because it increased complexity (36 per cent) or their cost of governance (34 per cent), although all businesses are required by it to appoint a Data Protection Officer (DPO).

Ethical hacking & Data Nationalism

An umbrella body for Information Technology practitioners in Nigeria, Nigeria Computer Society (NCS), has advised the government and private sectors on new

[5]Udegbunam, O. NIN: Nigerian govt extends deadline again, Premium Times, 29 June 2021. Available at: https://www.premiumtimesng.com/news/top-news/470531-nin-nigerian-govt-extends-deadline-again.html
[6] Moses-Ashike, H. Customer registration huge costs for banks – report, Business Day, 2 June 2021. Available at: https://businessday.ng/banking/article/customer-registration-huge-costs-for-banks-report/
[7] Onwuamaeze, D. KPMG: Nigerian banks spend billions annually on KYCs, This Day Newspapers, 2 June 2021. Available at: https://www.thisdaylive.com/index.php/2021/06/02/kpmg-nigerian-banks-spend-billions-annually-on-kycs/
[8] Ventures Africa, Survey: 70 Per Cent of Nigerian Businesses Are Unaware of Privacy Laws Governing Their Marketing Activities, 18 June 2021. Available at: https://venturesafrica.com/teamapt-announces-successful-series-b-funding-round/

measures to nip cybercrime in the bud. It counselled government and business owners to train more youths on ethical hacking and cybersecurity and use artificial intelligence to fight cybercrime.[9]

NCS also advised that internal resources and technology should be developed to store the nation's sensitive and that The National Information Technology Development Agency of Nigeria (NITDA) should enforce the use of government emails in all government agencies.

Fighting financial crime with Blockchain Tech

A Goldman Sach's report reveals that blockchain technology can improve KYC procedures. It will allow Anti-money laundering (AML) risk rating processes to be automated through smart contracts. It will also limit the risk exposure of banks and other players, allowing them to operate with leaner compliance teams, thereby delivering significant cost reductions.[10]

DFS Environment: Interoperability, Collaboration and Competition

National Fintech Strategy

The Central Bank of Nigeria (CBN), Alliance for Financial Inclusion (AFI) and other stakeholders in the financial sector are collaborating on developing the National FinTech Strategy. The Deputy-Governor, Financial System Stability Mrs. Aishah Ahmad stated that an actionable, robust and inclusive national Fintech strategy that is fit-for-all-purpose was required, as DFS was at the core of financial inclusion and Fintech strategy and financial ecosystem.[11]

Regulatory incubation Program for Nigerian Fintechs

June 16, 2021, witnessed the introduction of the Regulatory Incubation (IR) program by Securities and Exchange Commission (SEC) (the apex regulatory body of the Nigerian capital market. RI is a measure to foster effective regulation to accommodate innovations by Fintechs without compromising market integrity and within limits, ensuring investor protection always. RI is expected to be officially launched in the third quarter of 2021 and will admit Fintech models and processes into cohorts for one year. Submissions received through the Fintech Assessment Form shall be used to determine categories to be admitted in each cohort.[12]

Enabling Financial Inclusion at the Last Mile

Tepid growth in Financial Inclusion

The 2020 survey data from Enhancing Financial Innovation and Access (EFInA) shows that 51% of Nigerian adults use formal financial services such as a bank, a microfinance bank, mobile money, insurance, or pension account, an increase from 49% in 2018. Though

[9] Emma Okonji, Operators warn against cybercrime, This Day Newspapers, 3 June 2021. Available at: https://www.thisdaylive.com/index.php/2021/06/03/operators-warn-against-cybercrime/

[10] Joe Devanesan, Taking the fight to financial crime with blockchain tech, 25 June 2021. Available at: https://techhq.com/2021/06/aml-kyc-fight-against-financial-crime-with-block-chain-technology/

[11] CBN tasks stakeholders on national FinTech strategy, Vanguard Newspapers, 29 June 2021. Available at: https://www.vanguardngr.com/2021/06/cbn-tasks-stakeholders-on-national-fintech-strategy/

[12] Dipo Olowookere, SEC introduces regulatory incubation program for Fintechs, Business Post, 20 June 2021. Available at: https://businesspost.ng/economy/sec-introduces-regulatory-incubation-program-for-fintechs/

80% was the target by 2020, data shows that only about 64% (about 38 million adults) are now financially included. Women are the most financially excluded adults, with only 45% using financial services, as against 56% males. Comparatively, the exclusion is highest among adults in Northern Nigeria.

Meanwhile, 81% of Nigerians own mobile phones, whilst 35 million unbanked Nigerians own mobile phones and could be included through mobile money services. Out of a potential market of 18 million willing micro insurance customers, only 2% of Nigerian adults are insured. Whilst 24 million adults without pensions are making regular savings for their retirement, only 7% of Nigerian adults have pension accounts. These are great market opportunities and offer scope for deepening financial inclusion.

Reduce tariffs, promote indigenous content

On June 19, 2021, the President of the Federal Republic of Nigeria charged MTN Group to make services affordable and of high quality to subscribers in the country, as Nigeria remains the most lucrative market in Africa. The President restated the intention of the government to make broadband widely available and affordable. He further stressed the Telecommunications giant to support the ongoing national policy to promote indigenous content in the telecommunications sector.[13]

Retail digital stock trading

The SEC has granted Chaka the first digital sub-broker license to operate its digital platform for buying and selling stocks and increasing financial inclusion through retail activities.[14] Anyone can begin investing with ₦1,000 by downloading the app and signing up.

SANEF: The Winners and Losers

A report estimates that the Shared Agent Network Expansion Facility (SANEF) scheme has hugely benefitted agents, card scheme operators and the banks.[15] Millions of bank accounts have been opened, a huge number of BVN has been captured and recorded, cash-in and cash-out services and the card payment and withdrawal transactions have been good, and the Telco's' agitations for mobile money licenses have been blunted. Card scheme operators are the biggest net beneficiaries of the SANEF scheme, as Point of Sale terminals (PoS) card payments increased exponentially. Many Agents received free terminals and other incentives, such as floats by Some Super Agents, thereby making agents the biggest beneficiaries of the SANEF scheme.

However, the scheme has not been profitable for the super-agents who can hardly generate enough earnings to repay the credit facilities they received from the Bankers' Committee. Banking consumers have been the biggest losers due to high agent cash-out-fees, exacerbated by the inadequate number of ATMs.

[13] Deji Elumoye, Buhari tells MTN to reduce tariffs, provide quality service to Nigerians, This Day Newspapers, 19 June 2021. Available at: https://www.thisdaylive.com/index.php/2021/06/19/buhari-tells-mtn-to-reduce-tarrifs-provide-quality-service-to-nigerians/

[14] Alexander Onukwue, Chaka becomes the first startup to receive SEC license for digital stock trading in Nigeria, TechCabal, 23 June 2021. Available at: https://techcabal.com/2021/06/23/chaka-license-sec-nigeria-stock-trading-app/

[15] Financial Technology Africa, SANEF: The Winners and Losers, 17 June 2021. Available at: https://www.financialtechnologyafrica.com/2021/06/17/sanef-the-winners-and-losers/

Enabling Environment for DFS Ecosystem

Digital platforms to enhance financial inclusion – SEC

The SEC has recognised the role of digital platforms in the democratisation of capital market products and services to enhance financial inclusion. According to the Director-General of SEC, the EFInA's survey report of 2020 shows that 40 per cent of Nigerians were still financially excluded. Therefore, the Commission would intensify its investor education efforts so as to attract greater participation and inclusivity.[16]

Review of Telecoms License Structure

An in-house Standing Committee has been charged with reviewing the existing licensing structure in the Nigerian telecommunications industry. [17] The current license structure almost 20 years old. This review is expected to update the license to cover recent trends in the industry, such as technological advances, the convergence of technologies and services which characterise the telecom space over the years.

DFS Infrastructure

Spectrum Auction for 5G

The Nigerian Senate has endorsed deployment of the Fifth Generation (5G) technology and NCC has inaugurated a committee to develop the Information Memorandum (IM) for the auction of 3.5 gigahertz (GHz) spectrum band.[18] The IM will provide information for potential investors on the market, details of the Spectrum to be made available, the pre-qualification process, the Auction process and indicative timetable for auctioning of the C-band spectrum for 5G deployment in Nigeria.

FG targets 90% broadband penetration by 2023

The Nigerian Federal Government plans to achieve 90 per cent broadband penetration by 2023. The Minister of Communications and Digital Economy, Isa Pantami, explained that the present administration had recorded a 45 per cent increase in broadband penetration, with a 10 per cent increase from September 2019 to November 2020. It also targets 25mbps for urban areas while a 10mbps speed is targeted for rural areas. The Minister stated that broadband had been identified as the backbone of the digital economy by global experts, and its penetration will increase the Gross Domestic Product of the Nigerian economy by about 1.8 per cent[19]

[16] Femi Asu, Digital platforms'll enhance financial inclusion, Punch Newspapers, 24 Jun2021. Available at: https://punchng.com/digital-platformsll-enhance-financial-inclusion-sec/?utm_source=auto-read-also&utm_medium=web

[17] Media Team, NCC begins review of telcoms license structure, NCC Web site, 15 June 2021. Available at: https://ncc.gov.ng/media-centre/news-headlines/1015-press-statement-ncc-begins-review-of-telecoms-license-structure

[18] Media Team, Press Statement: Danbatta Inaugurates Committee on Spectrum Auction for 5G Deployment, NCC Web site, 20 June 2021. Available at: https://www.ncc.gov.ng/media-centre/news-headlines/1017-press-statement-danbatta-inaugurates-committee-on-spectrum-auction-for-5g-deployment

[19] Sam Tunji, FG targets 90% broadband penetration by 2023, Punch Newspapers, 4 June 2021 Available at: https://punchng.com/fg-targets-90-broadband-penetration-by-2023/?utm_source=auto-read-also&utm_medium=web

MTN plans significant investment to boost broadband penetration

MTN Group President Ralph Mupita has revealed that the company plans to invest N640 billion ($1.5 billion) in broadband penetration in Nigeria over the next three years, in line with the federal government's 2020-2025 National Broadband Plans.[20] The plan was unveiled in a meeting with the Nigerian President, Vice President, NCC Chairman, and CBN governor. MTN's plan aligns with its ambition to lead digital solutions for Africa's progress by 2025.

[20] MTN Press Statement, MTN commits to expanding broadband access across Nigeria, 21 June 2021. Available at: https://www.mtn.com/mtn-commits-to-expanding-broadband-access-across-nigeria/

For feedback and comments
Sustainable Inclusive &
Digital Financial Services,
Lagos Business School,
Km. 22, Lekki- Epe Expressway
Ajah, Lagos, Nigeria

Email: sustainabledfs@lbs.edu.ng

Content & Editorial Work:
Prof. Olawale Ajai
Emmanuel Etim

Design & Images:
Ibukun Taiwo
Olanrewaju Adelaja

@sustainabledfs
/company/sustainabledfs
@sustainabledfs
/sustainabledfs
sustainabledfs.lbs.edu.ng