Re-visiting Nigeria’s approach to Regulating Mobile Payments

By:

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In 2011, the Central Bank of Nigeria endorsed the Maya Declaration signalling a commitment towards improving financial inclusion in Nigeria. In line with its commitments under the Maya Declaration, the CBN launched a National Financial Inclusion Strategy (NFIS) in 2012. Amongst other things, the NFIS aims to increase access to payment services. To achieve this, the CBN identified mobile payments (m-payments) as one of the critical drivers in meeting its target. M-payments were singled out because of the high mobile penetration rate at the time. Elsewhere in Kenya, m-payments had successfully contributed to increasing inclusion. Kenya’s leading mobile payment product, *M-pesa* was launched in 2007, recording quick success and ultimately serving as a source of inspiration for regulators in Sub-Saharan Africa.

Despite a keen interest in m-payments, the approach taken to regulating m-payments in Nigeria has been less than effective in supporting the growth of m-payments. Before the release of the NFIS, the CBN already considered it necessary to create "an enabling regulatory environment as a policy path

towards achieving availability, acceptance, and usage of m-payments services in Nigeria.” To this end, it released two critical regulatory documents, the Regulatory Framework for Mobile Payments in Nigeria (“the Framework”) in 2009 and the Guidelines on Mobile Money Services in Nigeria ("the Guidelines) in 2014. Under the regulatory framework, only licensed entities known as ‘mobile money operators’ (MMOs) are permitted to provide m-payments. MMOs can include banks and licensed corporate bodies other than mobile network operators (MNOs). MNOs, which are telecommunication providers, are excluded from the scope of this model with their involvement limited to providing telecommunication network infrastructure for the use of MMOs. Despite issuing 21 mobile money licenses by 2014, the m-payments market failed to record significant success compared to other sub-Saharan markets like Kenya.

It is argued the m-payments market in Nigeria failed to take off partly due to the exclusion of MNOs in this initial stage of regulation. Although the CBN justified its decision to exclude MNOs on the basis that they would expose the financial system to unnecessary systemic risks, their exclusion has come at a high price especially considering Nigeria’s financial exclusion realities. As of 2018, 63.3% of Nigeria's adult population, live in rural areas. Only about 27.6% of rural dwellers can access a bank account. A significant percentageof surveyed rural dwellers listed the long distance to banks as a reason for not using them. This highlights the poor bank branch penetration in such areas. In comparison to banks, MNOs have an extensive and well-dispersed network of existing outlets across Nigeria. In 2015, a Geospatial Mapping Survey of MNO access points captured about 8,533 operational outlets in Nigeria’s 36 states and Federal Capital Territory. MNOs have specific strengths on which they can leverage to record quick gains in the provision of mobile payments. Since mobile penetration is higher than access to bank accounts, it is reasonable to conclude that MNOs who control the technology for devices (SIMs) will be better placed to achieve faster market penetration. With their extensive agent networks and recognisable brands, a regulatory model that excludes MNOs from directly providing m-payments is counterproductive.

In light of the foregoing, it was unsurprising that from 2015, the CBN began to embrace regulatory shifts, most of which focused on ensuring financial institutions could access agent networks. For instance, the CBN proposed to

grant ‘Super Agent' status to interested parties, including MNOs. Super agents are parties contracted to act on behalf of the financial institutions which offer services such as m-payments. Under its Licensing Framework for Super Agents, the CBN sought to encourage stakeholders such as MNOs to share their agent networks with financial services providers. In collaboration with banks, the CBN also supported the development of agent networks under a platform known as the Shared Agent Network Expansion Facility (SANEF) programme. Under this programme, participating institutions would be able to share agents in rolling out financial services.

In a bold move in October 2018, the CBN embraced the registration of niche financial institutions called payment service banks (PSBs). Under the Guidelines for Licensing and Regulation of Payment Service Banks, MNOs amongst other eligible promoters may apply for PSB licenses to maintain savings accounts and collect deposits from the public. PSBs may also provide payment and remittance services and operate electronic purses. For the first time since the introduction of regulatory rules in 2009, MNOs have now been provided with a platform that permits them to provide m-payments directly. The idea of PSBs is, however, not new and in fact, draws some inspiration from India. Like Nigeria, India's initial response to regulating mobile payments was to exclude MNOs form providing the service. In 2014, the Reserve Bank of India (RBI) issued Guidelines for Licensing of Payments Banks which permitted MNOs to register as payment banks in order to offer mobile payments.

So far, payments banks have not made a substantial impact in India. While 11 'in principle' approvals were granted to applicants in 2015, by 2018 only four of the 11 payments banks remained operational. These banks have registered weak performances incurring net losses in the 2016-2017 and 2017-2018 financial year. The seeming failure of these banks has been attributed to limited revenue streams. This is a direct consequence of stringent regulations which dictate the business model they adopt. Although registered as banks, they are prohibited from engaging in any lending activity and cannot make any profit from interests. The revenue margins from deposits are also small as there is a cap on the deposits that they can accept. At the same time, they must offer attractive interests on deposits if they wish to compete with traditional banks.

India’s experience with payment banks raises questions about how successful PSBs will be in improving financial inclusion in Nigeria. India’s experience may suggest that niche banking institutions with multiple product offerings may not successfully drive the m-payments market. MNOs are non-traditional financial institutions that may be disincentivised from investing in the m-payments market if they are subject to stringent regulations. While it is still too early to determine the impact of the new PSBs, they will likely face the same difficulties as their Indian counterparts.

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