

Payment Service Banks in Nigeria: Opportunities and Challenges

Of the 38 million financially excluded adults in Nigeria:



Live in rural areas



59.9%

Are aged 35 years or less



Have not completed secondary education



56.0%

Are women



Live in the **North West**



27.0%

Derive their income primarily from farming



Use a mobile

phone



31.0%

Derive their income primarily from a micro/small business

The pace of financial inclusion in Nigeria has been slow



Only 51%

of adults were using formal financial services in 2020

Barriers to formal financial inclusion



Demand-side

- → Lack of affordability of banking services
- → Lack of literacy and awareness of the benefits of formal financial services
- → Lack of identity documents to set up bank accounts
- → Prevalence of cash culture
- Perception that formal financial services offer little value



Supply-side

- ◆ Lack of raising awareness of the benefits of formal financial inclusion
- Onerous on-boarding processes to open bank accounts
- → Irrelevant financial products that do not cater to financially excluded populations
- → Lack of hard and digital infrastructure
- ◆ Lack of access to banking points

In 2018 the Central Bank of Nigeria introduced a new banking license category.

Payment Service Banks (PSBs)







The regulatory framework for PSBs limits the scope of services they can offer. As a result, the following capabilities will be essential for success:



A range of payments and distribution partnerships



Optimal technology



The right mix of physical and digital access points to limit costs but on-board customers



Products tailored to unbanked groups



A wide and engaged distribution network in rural areas



Deployment of patient capital

PSBs can build win-win product, distribution, or technology partnerships for success with:



Deposit Money Banks:

For last mile delivery of DMBs' financial products



Informal self-help

groups: To facilitate and formalise informal savings and loans schemes



Pay-as-you-go utilities and solar home systems



Non-Bank Financial Institutions: Last mile delivery of pension and remittance products

Government-to-person (G2P) and

person-to-Government (P2G) payments



Transport:

Ticket payments



Fintechs: Collaboration on technology and last-mile product delivery



Agriculture: Payments from agribusiness and subsidies from governments to farmers



Humanitarian payments to assist vulnerable

populations



of financially excluded Nigerians use a mobile phone

This presents a huge opportunity for digital finance inclusion via mobile phones.



Wide distribution networks



Mobile network operators (MNOs) are best equipped

to set up PSB subsidiaries due to:

Experience with mobile money and mobile technology for digital financial services



Customer reach, engagement and trust

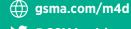
2 of 3 licensed PSBs in Nigeria are subsidiaries of MNOs

MNOs Airtel and MTN are expected to receive licences in April 2022, which may transform the financial inclusion landscape in Nigeria in the next 5 years.



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