



Payment Service Banks in Nigeria: Opportunities and Challenges

Of the 38 million financially excluded adults in Nigeria:



81.0%

Live in rural areas



73.3%

Have not completed secondary education



43.0%

Live in the North West



61.0%

Use a mobile phone



59.9%

Are aged 35 years or less



56.0%

Are women



27.0%

Derive their income primarily from farming



31.0%

Derive their income primarily from a micro/small business

Source: EFinA. Access to Financial Services Survey 2020

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

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



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



Fintechs: Collaboration on technology and last-mile product delivery



Informal self-help groups: To facilitate and formalise informal savings and loans schemes



Government-to-person (G2P) and person-to-Government (P2G) payments



Agriculture: Payments from agribusiness and subsidies from governments to farmers



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



Transport: Ticket payments



Humanitarian payments to assist vulnerable populations



61% of financially excluded Nigerians use a mobile phone

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

Mobile network operators (MNOs) are best equipped to set up PSB subsidiaries due to:



Wide distribution networks



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.

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

Payment Service Banks (PSBs)

which can operate as part digital, part physical banks to reach financially excluded populations.



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