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

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 pace of financial inclusion in Nigeria has been slow

Only 51% of adults were using formal financial services in 2020

Payment Service Banks (PSBs)

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

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
- 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
- **Informal self-help groups:** To facilitate and formalise informal savings and loans schemes
- **Government-to-person (G2P) and person-to-Government (P2G) payments:** Pay-as-you-go utilities and solar home systems
- **Agriculture:** Payments from agribusiness and subsidies from governments to farmers
- **Humanitarian payments:** To assist vulnerable populations

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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.

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**
- **Wide distribution networks**
- **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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