Payments 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

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.

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

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.

UKaid from the British people

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