

Nigeria and digital banking: A revolution still waiting to happen

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At the end of 2022 the Central Bank of Nigeria [launched](#) new banknotes. At the same time it also [capped](#) withdrawal of the new banknotes. The rollout of the currency change was [shambolic](#). But it also led people to

turn to digital financial services such as the use of [point of sale \(PoS\) machines for payments](#) in their transactions. [Digital financial services](#) are financial services which rely on digital technologies for their delivery and use by consumers. The Conversation Africa's Wale Fatade asks Iwa Salami, an expert in financial technology regulation and financial regulation in emerging economies, to explain the increase and its implications.

How did the botched currency changeover affect the way Nigerians used the banking system?

The Central Bank [set a deadline of 31 January 2023](#) for all old notes to be deposited in banks in exchange for new. The country was [plunged into a currency crisis](#) when all old notes were out of circulation and the new notes were hardly circulating. The ensuing scarcity of cash made life unbearably hard for Nigerians.

One outcome was that Nigerians sought alternative ways to pay for goods and services using digital alternatives, such as point of sale machines. Between 2017 and 2022, the number of point of sale terminals in Nigeria grew significantly.

[In 2017, there were around 155,000 terminals](#), and this number has increased to roughly 1.1 million as of April 2022. Merchants and PoS operators handle the machines. Their operations are [regulated by the Central Bank](#).

It also resulted in a [surge](#) in point of sales transactions in Nigeria. There was a 40.69% year-on-year increase from the N573.72 billion (US\$1.24 billion) transactions that was done in January 2022 to N807.16 billion (US\$1.75 billion) in January 2023. Total cashless transactions also rose by 45.41% year-on-year to N39.58 trillion (US\$85.96 billion) in January

2023.

What are the most developed forms of electronic transacting in Nigeria?

Point of Sale (PoS): These devices are installed both by traditional banks as well as by payment service banks. They are now ubiquitous throughout Nigeria—in supermarkets, large retail outlets as well as in small-scale businesses set up for this purpose only.

Payment service banks: These [are technology driven companies](#) licensed by the Central Bank to engage in banking activities. Examples are Hope and MoneyMaster.

Fintechs: This [includes](#) any app, software, or technology that allows people or businesses to digitally access, manage, or gain insights into their finances or make financial transactions. A number of companies offer these services in Nigeria. They include Flutterwave, Piggyvest, OPay, Interswitch, Kuda and Remita.

Online banking offered by traditional banks: All Nigerian banks offer online services. However, the services aren't always reliable. During the currency crisis, for example, platforms collapsed and customers were unable to transact. Digital platforms didn't have the ability to cope with the deluge of online transactions.

Mobile money: [Financial service offered by a mobile network operator](#) and can be independent of the traditional banking network. A bank account is not required to use mobile money services—the only prerequisite is a basic mobile phone.

Those offering this service include MTN and Airtel Africa. As with

most other countries on the continent, mobile money uptake in Nigeria has been slow. The exception has been [Kenya](#), where the [launch of MPesa in 2007](#) led to a massive uptake in mobile [financial services](#).

In 2022, the Central Bank of Nigeria issued MTN the first license to operate mobile money services. It started [operations in May](#). MTN is the largest mobile network operator in Nigeria.

Can you paint a picture of the banking landscape?

[In 2021 Nigeria had 122.3 million active bank customers](#). According to February 2022 data only [39% of Nigerians](#) use the formal banking system.

As has been shown elsewhere, [mobile money offerings](#), as well as other digital services, can extend banking to the unbanked.

In 2022 the volume of transactions performed electronically in Nigeria surged to the highest in five years. The total volume of the Inter Bank Settlement Scheme Instant Payment Platform transactions [rose by 613.1% to 5.2 billion in 2022 from 729.2 million in 2018](#). [Its value also increased](#) by 381.5% from N80.4 trillion (US\$174.6 billion) as at 2018 to N387.1 trillion (US\$840.67billion) in 2022.

In my view, the spike in the value of transactions carried out at point-of-sale devices in Nigeria in January 2023—they went up by [40.7% higher compared to the same month in 2022](#)—shows a wider adoption of digital payments. It is also an indication of the huge opportunities that mobile money operators and other forms of digital payments have in Nigeria.

How does Nigeria's digital currency eNaira fit into the picture?

eNaira was [launched by the Central Bank in October 2021](#). However, [less than 0.5% of Nigerians](#) were recorded as using it a year after its launch.

The Central Bank didn't have an adoption strategy for the eNaira planned ahead of the currency change over. This was clearly a missed opportunity.

Although the aim of the currency was to [facilitate financial inclusion](#) and shrink the size of the informal market, it's fallen short of the mark. It is currently only accessible to those with bank accounts. So, despite a [reported increase in the number of e-Naira wallets](#) to 13 million since October 2022, and an increase in the value of transactions in 2023, a lot still needs to be done to drive widespread adoption by the financially excluded.

Rethinking its architecture and policies to drive its adoption could include:

- making it accessible to all with a mobile phone;
- incentivising people to use it such as granting significant discounts when used to pay taxes and for other public services; and
- embedding mobile network or payments apps into Central Bank Digital Currency wallets for the wallets to be inter-operable with mobile network operators' infrastructure.

A lesson of the currency crisis is that fintech offers a solution to the limitations of legacy [financial institutions](#), and at the same time, they can help address the financial exclusion challenge in Nigeria.

Had Nigeria appreciated the value of digital finance and particularly the key role to be played by [mobile money](#) operators, the impact of the crisis would not have been as painful.

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