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AN EVALUATION OF MOBILE MONEY SERVICES AS AN ALTERNATIVE TO THE MAINSTREAM BANKING SYSTEM IN NIGERIA

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Abstract

During the recent naira scarcity experienced as a result of naira redesigning, mobile money services came to the rescue of many cash-stranded Nigerians. Mobile money service is an e-wallet service. An E-wallet is a type of electronic card which is used for transactions made online through a computer or a smartphone which is available in many countries including Nigeria and allows users to store, send, receive and borrow money using their mobile phones or smart devices. This Paper examined the evolution of this service, its incursion into the Nigerian banking system and its importance as an alternative mode of banking, especially during the recent naira scarcity. Both primary and secondary sources of law which include Statutes and relevant internet materials are employed in this discourse. This paper finds that the coming of mobile money services into the Nigerian banking space is gaining more ground than expected. The paper further recommends that more regulatory framework is needed to ensure that the confidence reposed in the mobile money service as an additional banking platform is not eroded.

Keywords: *Mobile, Money, Smartphone, Cashless, E-wallets.*

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1. Introduction

In October 2022, the Central Bank of Nigeria (CBN) Governor shared plans to release a new series of three banknotes. The banknotes, namely N200, N500, and N1000, will be available for circulation on December 15th, 2022. However, the current banknotes will continue to be accepted as legal tender until January 31st, 2023. The Governor highlighted that this initiative aims to better serve Nigerians by addressing terrorism financing, counterfeiting, and fiscal imbalances. These issues arose due to concerns about handling currency management outside the banking system.¹

The Central Bank of Nigeria (CBN) has set limits on how much money people can take out of their bank accounts. They can only withdraw up to NGN20,000 per day and NGN100,000 per week from ATM² or POS³ agents. The Central Bank of Nigeria (CBN) instructed banks to limit the amount of money stocked in ATMs. Consequently, individuals resorting to POS agents for cash withdrawals face exorbitant transaction fees. This predicament exacerbates the financial strain on many impoverished individuals, compelling them to endure prolonged queues at ATMs. As a result, accessing essential everyday items has become increasingly challenging for affected individuals.

During a time when traditional banking services faced technical difficulties, many people turned to mobile money services. This allowed them to easily and quickly make transactions on their smart devices. Market traders found it particularly convenient to use mobile money service accounts for buying and selling goods and services. This led to a significant increase in the popularity of mobile money services. One of the great advantages of this service is that it can be set up instantly, without any fees or the need to visit a physical office. Some mobile money operators don't even require a BVN⁴. Additionally, virtual ATM cards can be obtained and used at any ATM. The ease of use, along with safe and secure electronic payments, make mobile money a popular alternative to traditional bank accounts. It can be used on both smartphones and basic feature phones.

¹ J. Nasiru, 'Timeline: From Old Notes to Old Notes – The Back and Forth With Naira Redesign', (The Cable, 2023) <https://www.thecable.ng/timeline-from-old-notes-to-old-notes-the-back-and-forth-with-naira-redesign-policy#:~:text=Such%20has%20been%20the%20story,out%20of%20the%20existing%20eight>. accessed 11 July 2023.

² Automatic Teller Machines.

³ Points of Sales.

⁴ Biometric Verification Number.

2.0 Meaning of Mobile Money Service

The prevalent use of technology has led to the evolution of multi-functional devices such as mobile phones and laptops. Presently, a mobile phone serves as a camera, laptop, fitness tracker, alarm, and even a banking tool. Consequently, mobile money operators have emerged in Nigeria, providing financial services through mobile phones and telecommunication networks.⁵

Mobile payment, or mobile money service, is a way to pay for things using your phone or tablet. You do not need cash. Instead, you use mobile apps to buy goods and services. Mobile money is a regulated payment service that you can use on any mobile device. With it, you can access your money anytime and anywhere, even if you do not have a bank account. Mobile money lets you turn your real money into electronic money (e-money). You can then use it on your mobile device to make financial transactions. This way, you don't have to rely on cash. Mobile money provides more financial services for people who don't have a bank account.⁶

Mobile payment technology is gaining prominence in Nigeria, particularly following the redesign of the naira. This trend aligns with the government's objective of fostering a cashless society, wherein electronic methods such as credit cards and electronic fund transfers supersede cash and checks for transactions. Several mobile applications, including Opay, Firstmonie, Moniepoint, and Palmpay, facilitate this transition by enabling users to deposit funds, transfer money, and make payments for goods and services, both online and in physical stores. These apps offer convenience through barcode scanning or code entry functionalities.

Across Africa, mobile phones are reshaping transactional dynamics akin to the impact of computers in developed nations⁷. Notably, mobile money stands out for its accessibility, as it does not mandate a traditional bank account for utilization. Despite potential fees and associated terms and conditions, mobile payment technology remains more inclusive compared to conventional banking systems, thus asserting its increasing relevance in contemporary society.

2.1 Evolution of Mobile Money Service in Nigeria

⁵ <https://www.investsmall.co/mobile-money-operators-in-nigeria/>

⁶ Samuel Orekoya, 'Mobile Money and Monetary Policy in Nigeria', (2017) 32 (34) NDIC Quarterly < <https://ndic.gov.ng/wp-content/uploads/2020/08/NDIC-Quarterly-Vol.-32-Nos-34-2017-Article-Mobile-Money-and-Monetary-Policy-in-Nigeria..pdf>> accessed 13 August 2023.

⁷ Michele Chandler., 'Mobile Banking Takes Off in Nigeria', (Insights by Stanford Business, 24 January 2012) < <https://www.gsb.stanford.edu/insights/mobile-banking-takes-nigeria>> accessed 13 August 2023.

The history and evolution of cash transactions in Nigeria is a topic that is worth exploring in depth. Prior to the introduction of mobile money services, which have now become commonplace, cash transactions in Nigeria were conducted in a very different way. This was about forty (40) to fifty (50) years ago when visiting a bank was the only guaranteed way of withdrawing or transferring cash. At that time, bank customers had to endure long queues, and were given tally numbers or cards to identify the next person to be assisted. The process of withdrawing or transferring cash was much more time-consuming and inconvenient than it is today. It was common for people to spend hours in queues at the bank, waiting to be attended to. However, despite the challenges, people still preferred this method as it was the only way to securely conduct transactions.

Today, the story is completely different. With the advent of mobile money services, people can easily transfer cash from the comfort of their homes or offices. This has brought a lot of convenience and flexibility to the process of conducting transactions. It is fascinating to see how much things have changed over time, and how technology has revolutionized the way we conduct financial transactions.

Many of us can recall the days when we had to stand in long lines at the bank just to conduct a transaction or view our account balances. Despite still visiting banks today, the reasons for doing so have changed. At that time, there was no clear solution to this tedious process, but eventually, the Automated Teller Machine (ATM) was introduced. With the introduction of the ATM, people were no longer required to physically visit banks to perform basic cash transactions. As time passed, people needed more than what the ATM offered. This desire, coupled with the emergence of the Global System for Mobile (GSM) communication and Financial Technology (FINTECH), gave rise to the concept of mobile money in Nigeria. The banking system across the globe underwent significant changes as a result of the smartphone revolution. Businesses, markets, and systems must adapt to changes and keep up with trends as technology advances.

In 2012, the Central Bank of Nigeria (CBN) under the leadership of Sanusi Lamido initiated a cashless policy to tackle the high cost of cash management in the country. This policy aimed to reduce the expenses associated with cash handling by promoting electronic payment channels and decreasing the need for physical cash. The policy was first implemented in seven (7) states, including Lagos, Abia, Anambra, Kano, Ogun, Rivers, and Abuja, to increase the amount of money in circulation and track money laundering activities. To incentivize electronic

payment channels, a cash handling charge was introduced on daily cash withdrawals and deposits. However, in August 2015, the CBN suspended the policy temporarily to allow banks to deploy the necessary technology to enable seamless operation. Since then, the Nigerian banking industry has made remarkable technological advancements, making it one of the best in the world. As a result, the cashless policy has been implemented effectively, and more Nigerians are now adopting electronic payment channels for transactions.⁸

In October 2022, the former CBN Governor, Godwin Emefiele, announced the apex bank's commitment to achieving a completely cashless system in Nigeria. He stated that the necessary infrastructure, including the Central Bank Digital Currency (CBDC), would be put in place to ensure a seamless transition to a cashless economy⁹, online banking, Payment System Banks (PSBs), Point of Sale terminals (POS) agent banking, mobile banking and ATMs have since been deployed. According to him,

The destination as far as I am concerned is to achieve 100 percent cashless economy in Nigeria. I know that those who doubt us will say that 100 percent cashless is unattainable. Yes, it is true, but Nigeria must move from being a predominantly cash economy to a predominantly cashless economy.¹⁰

In 2007, Safaricom launched M-PESA¹¹ in Kenya to provide financial support to those who did not have access to traditional banking services. Initially, the service was tailored for micro-loans, but it soon gained popularity as a reliable means of transferring funds. The extensive adoption of M-PESA can be attributed to its user-friendly interface, state-of-the-art security, and flexibility. Presently, Africa accounts for half of the world's registered mobile money users, with M-PESA being the dominant player in the market.¹²

M-Pesa is a virtual banking service enabling users to transfer money via their mobile phones and SIM cards. Accessible across the country, M-Pesa outlets cater to individuals without bank accounts. Each transaction on the platform requires a PIN and generates an SMS notification

⁸ Bukola Idowu, 'Economy: As Full Implementation of Cashless Policy Starts Today', (Leadership, 2023) <[⁹ A CBDC is a Digital form of Central Bank Money \(e-Naira\) that is widely available to the general public and it was launched in Nigeria in 2021.](https://leadership.ng/economy-as-full-implementation-of-cashless-policy-starts-today/#:~:text=In%202012%2C%20the%20Sanusi%20Lamido,cash%20handling%20expenses%20of%20banks.> accessed 16 August 2023.</p></div><div data-bbox=)

¹⁰ See (n 8).

¹¹ 'M' stands for mobile while 'PESA' is a Swahili word for money

¹² Calleb Osei, 'Evolution of Mobile Money' (B&FT Online 23 November 2021)

<<https://thebftonline.com/2021/11/23/evolution-of-mobile-money/>> accessed 13 August 2023.

containing details of the recipient and the transferred amount, enhancing transparency¹³. Mobile receipts serve as tangible evidence of transactions, reinforcing accountability.

Similarly, mobile money service providers in Nigeria, such as Opay, Firstmonie, Moniepoint, and Palmpay, offer users the ability to conduct financial transactions solely through their phone's SIM card or smart device, mirroring M-Pesa's model. Transactions through these platforms are swift, often completed within seconds, with users receiving instant SMS confirmations of successful transfers.

In Nigeria, mobile money services are experiencing steady growth. The inaugural mobile money service, Paga, was introduced in 2009 following approval by the Central Bank of Nigeria. Paga facilitated various transactions, including money transfers, airtime purchases, and bill payments, all accessible via cell phones.¹⁴ Subsequently, numerous additional mobile money services have emerged in Nigeria. While cash transactions continue to dominate as the preferred mode of payment among Nigerians, mobile money has garnered considerable popularity. Presently, several licensed mobile money service providers operate within the country.

2.2 Differences Between Mobile Money and Mobile Banking

In the last decade, there has been a notable shift in the way individuals conduct their payments and banking activities. Previously, the primary method of payment for goods and services was through physical cash transactions. However, with the emergence of mobile applications, it is now feasible to execute online payments using mobile devices. Furthermore, mobile banking applications have streamlined access to banking services, facilitating direct electronic transfers to bank accounts or through prepaid gift cards, prepaid debit cards, or credit cards.

Mobile money services such as Opay, Firstmonie, Moniepoint, Palmpay, and Kuda operate akin to M-Pesa, providing secure, convenient, and increasingly popular electronic payment alternatives to traditional banking channels. Notably, mobile money services are compatible with both smartphones and basic feature phones.

Mobile Money is a payment service that facilitates the sending and receiving of money through mobile phones or other smart devices connected to the internet. It functions as a digital wallet,

¹³ Julia Kagan, 'What Is M-Pesa? Definition, How the Service Works, and Example', (Investopedia, 2023) <<https://www.investopedia.com/terms/m/mpesa.asp>> accessed 13 August 2023.

¹⁴ See (n8).

enabling users to pay bills, store funds, and transfer money conveniently and securely, without reliance on traditional banking infrastructure. Each user's mobile phone number is linked to an electronic account, ensuring the safety and security of their funds.

The ease of use of Mobile Money services is noteworthy. Users can purchase goods and services, settle bills, and recharge mobile airtime directly from their phones. Additionally, cash withdrawals are possible through authorized agents. Initiating transactions or bill payments is straightforward, typically accomplished through the Mobile Money menu on the user's phone, resembling the simplicity of sending a text message. While most users utilize their mobile phone numbers as account identifiers, occasionally distinct account numbers are assigned. Nonetheless, employing phone numbers as account identifiers facilitates ease of recollection.

Mobile Money services are accessible to anyone, anywhere, at any time, offering a convenient and widely available means to manage finances effectively.¹⁵

Nigerians have experienced the frustration of arriving at the bank only to discover it has closed, or encountering difficulty withdrawing money due to a holiday. Traditional banks operate within limited hours, but the advent of web and mobile banking has revolutionized the banking landscape, enabling individuals to deposit or transfer funds round the clock. Mobile banking, emerging in the late 1990s and early 2000s alongside the proliferation of Internet banking, has since become an indispensable tool in modern life.

Mobile Banking is a cutting-edge service that grants users access to their bank accounts via a mobile application. By installing their bank's app on a smartphone or tablet and completing a simple registration process, customers can access a comprehensive array of banking services. These include account updates, transaction histories, online passbooks, fund transfers, and service applications, all conveniently accessible at their fingertips. Provided by financial institutions, Mobile Banking empowers individuals to conduct banking transactions anytime, anywhere, without the need to visit a physical bank branch. This service operates 24/7, ensuring unparalleled convenience and flexibility for users.

Preceding Mobile Banking, Internet Banking serves as its predecessor, offering individuals the ability to manage their finances through a bank's website. Together, these innovative banking solutions have redefined the way individuals interact with their finances, providing unparalleled accessibility and convenience in today's fast-paced world.

¹⁵ <https://www.worldremit.com/en/faq/mobile-money#what-is-mobile-money> accessed 26August 2023.

The banking industry and its apps have undergone significant changes over the years. Nowadays, banking applications can be found in every country worldwide, and customers have a broad range of mobile banking apps to choose from. Each app has its distinct uses and features, reflecting the increasing popularity of smartphones and applications, the advancements in ICT, the digitization of financial services, the growth of mobile money infrastructure, the evolving customer needs and preferences, the expanding market and accessibility, and the intense competition among banks.

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Today, virtually every bank has a mobile app that is compatible with various operating systems, allowing customers to perform financial tasks on their smartphones while on the move. With mobile banking apps, users can access a variety of banking services, such as account information, digital payments, investments, support services (such as requesting a loan or filing a complaint), customer service (via text, audio or video chat), purchases, lifestyle services, and many more.¹⁶

3.0 Regulatory Framework for Mobile Money Services in Nigeria

The Central Bank of Nigeria (CBN) and the Nigerian Communications Commission (NCC) are responsible for monitoring and regulating mobile money services in Nigeria. The CBN grants license to Mobile Money Operators (MMOs) and generally regulates financial services rendered. The NCC grants approvals and issues unique short codes to the MMOs. They aim to create efficient systems for settling transactions, including electronic payment systems. This plays a crucial role in promoting the growth of mobile money services in Nigeria.¹⁷

In July 2021, the CBN issued a comprehensive regulatory framework for mobile money services. This framework defines the policy path toward achieving availability, acceptance,

¹⁶ *Ibid.*

¹⁷ See section 47 (2) of the CBN Act 2007

and usage of mobile payment services. It covers various aspects, including technical requirements, participant roles, and risk management.

A good payment system is important for effective financial policies and economic regulation. Nigeria recognized the need for a new payment system and introduced GSM, which has grown rapidly and is now widely accepted. Person-to-person payments have been identified as a practical and effective measure to ensure financial inclusion, particularly for those without bank accounts. To regulate financial inclusion, mobile channels are being used to control the financial transactions of these individuals. To create a more inclusive financial system that benefits everyone, regardless of their banking status, the Central Bank of Nigeria (CBN) decided to establish a regulatory framework that will create a favourable environment for the orderly introduction and management of mobile money services in Nigeria in 2021. This regulatory framework is an important step towards achieving this goal.¹⁸

The Framework identifies three methods through which mobile money services can be carried out in Nigeria, which include Bank Account-Based, Card Account-Based, and Store Value-Based Scenarios.¹⁹

The goal of the regulatory framework is to decrease the dominance of cash in the Nigerian economy and ensure that the growth of mobile money services is structured and organized. It will define the roles and responsibilities of all participants in the mobile money industry and establish minimum technical and business requirements for them. Additionally, the framework will provide general guidelines for the implementation of processes and transactions involved in mobile money services. The primary aim of the framework is to increase the safety and effectiveness of mobile money services, thus enhancing user confidence in them.²⁰

Thus, under the introductory part of the **CBN Regulatory Framework for Mobile Money Services in Nigeria** issued in July 2021, it is provided that:

The Framework defines the regulatory environment as a policy path towards achieving availability, acceptance and usage of mobile payment services. Mobile payment has evolved as a veritable channel for facilitating the growth

¹⁸ See CBN Regulatory Framework for Mobile Money Services in Nigeria July 2021 which was issued pursuant to the powers of the Apex Bank under section 47 (2) of the CBN Act, 2007 to promote and facilitate the development of efficient and effective system for the settlement of transactions, including the development of electronic payment systems.

<https://www.cbn.gov.ng/Out/2021/CCD/Framework%20and%20Guidelines%20on%20Mobile%20Money%20Services%20in%20Nigeria%20-%20July%202021.pdf> accessed 26 August 2023.

¹⁹ <https://jee.africa/wp-content/uploads/2021/10/Regulatory-framework.pdf>

²⁰ *Ibid.*

of commerce. The use of the mobile phone for the initiation, authorization and confirmation of the transfer of value out of a current, savings or stored value account has been recognized as a development that is expanding the growth of commerce among both the financially included and non-included units in the economy. This regulatory framework addresses business rules governing the operation of mobile money services and specifies basic functionalities expected of any mobile money service and solution in Nigeria. It identifies the participants and defines their expected roles and responsibilities in providing mobile money services in the system. In addition, it sets the basis for the regulation of services offered at different levels and by the participants. The overriding vision of achieving a nationally utilized and internationally recognized payment system necessitates strategies to bring informal payment transactions into the formal system.

The framework for implementing mobile money services in Nigeria has two main models: Bank-led and Non-bank-led. The Bank-led model is when a bank, alone or in partnership with other banks or approved organizations, provides banking services through the mobile payments system. This model can be used when the bank works alone or with other banks and approved organizations. A bank or consortium of banks will be the Lead Initiator. An example of this model is First Bank's Firstmonie.

The non-bank model for mobile money services in Nigeria allows licensed corporate organizations to provide such services directly to customers. The license is issued by the Central Bank of Nigeria (CBN) and the Lead Initiator must be a corporate organization that is not a deposit money bank, a national primary mortgage bank, a national microfinance bank, or a telecommunications company.²¹ Opay, Smartcash, Moniepoint, Kuda among others, are all forms of non-bank-led models.

At first, MNOs²² like MTN, Glo, and Airtel were prohibited from offering mobile money services in Nigeria as the CBN aimed to have complete control over monetary policy operations, minimize risks, and ensure that only licensed organizations could provide financial services. However, Nigeria is presently opening up its financial services sector to accommodate providers with varying business models and distribution channels, including Mobile Network Operators. In April 2022, MTN and Airtel, two of the country's top telecommunications service providers, were granted final authorization from the CBN to operate as Payment Service Banks

²¹ See (n21).

²² Mobile Network Operators.

(PSBs), six months after obtaining approval in principle from the Central Bank of Nigeria (CBN) in November 2021.²³

The significance of Mobile Network Operators (MNOs) in offering mobile money services has not gone unnoticed by the Central Bank of Nigeria (CBN). They acknowledge the crucial role played by MNOs' infrastructure and have taken measures to integrate them into their efforts towards expanding the nation's financial sector. The CBN's PSB license is an instance of a mobile money license granted to non-bank institutions that can extend services to rural regions, where two-thirds of the country's 106 million adults reside. While 45% of Nigerian adults hold bank accounts, 36% are unable to access financial services at all.²⁴ PSBs offer a range of basic banking services to their customers, including deposits, withdrawals, and cross-border remittances. They also issue debit cards to customers for cashless transactions. However, they do not provide credit cards. PSBs are required to have a significant presence in rural areas to promote financial inclusion, and they can provide credit facilities to farmers and small business owners in these areas.²⁵ A minimum capital of 5 billion Naira (\$13 million) is required to operate a PSB.²⁶ Although Payment Service Banks (PSBs) in Nigeria do not offer all kinds of banking services, such as foreign exchange transfers or lending to customers, they provide an opportunity to reach more remote and lower-income customers that traditional banks have been unable to reach in Nigeria.²⁷

3.1 Participants and their Responsibilities in the Provision of Mobile Money Services

The Participants in the provision of mobile money services are grouped into six (6) categories which include the Regulators, Mobile Money Operators, Infrastructure Providers, Other Service Providers, Consumers, and Mobile Money Agents. As earlier mentioned, the Regulators for mobile money services in Nigeria are the Central Bank of Nigeria (CBN) and the Nigerian Communications Commission (NCC).²⁸

²³ Alexander Onukwue, 'Why Nigeria's Biggest Telecom Companies Are Getting Banking Licenses', (Quartz, May 5, 2022) <https://qz.com/africa/2162354/why-nigerias-top-telecom-companies-are-getting-banking-licenses#:~:text=Nigeria%20now%20has%205%20PSBs,Moneymaster%20PSB%2C%20and%209PSB%20respectively>. accessed 26 August 2023.

²⁴ EFINA Access to Financial Services in Nigeria 2020 Survey June 3, 2021 <https://a2f.ng/wp-content/uploads/2021/06/A2F-2020-Final-Report.pdf> accessed 26 August 2023.

²⁵ *Ibid.*

²⁶ <https://www.cbn.gov.ng/out/2020/ccd/approved%20reviewed%20guidelines%20for%20licensing%20and%20regulation%20of%20payment%20service%20banks%20in%20nigeria-27aug2020.pdf> accessed 26 August 2023.

²⁷ See (n27).

²⁸ See (n23).

The regulators are to license the MMOs on such terms and conditions as they may determine from time to time, issue them with a unique Scheme Code by the NIBSS²⁹ for managing interoperability and issue them with a unique short code by the NCC. The people who make rules for mobile money need to make sure that all the phones and equipment used for it are approved by someone in charge. They also need to make sure that people who use mobile money are registered in a certain way. This means they will check who you are. The people in charge of mobile money also need to make sure that your money is safe if you don't spend all of it.³⁰

Organisations that are authorized to provide mobile money services are called MMOs. Banks and corporate organizations can act as MMOs. Their primary responsibility is to provide the necessary hardware, software, security measures and switching infrastructure to ensure that mobile money services are always available. They are also required to have disaster recovery plans in place and to make sure that all participating institutions follow the guidelines for mobile money service operations. Additionally, they must ensure that the system is available 99.99% of the time and connect to the National Central Switch (NCS) to ensure that all schemes within the system are interoperable.³¹ Mobile Money Operators (MMOs) need to follow the laws for verifying customer identities and detecting possible money laundering. They must also have a plan in place to reduce risks like fraud and technical issues. To manage these risks, MMOs should appoint a Risk Compliance Officer to ensure they follow the rules for good corporate governance.³²

Infrastructure Providers are organizations that supply equipment for mobile money services and offer switching processing, and Inter-Scheme Settlement facilities. These services depend on the infrastructure provided by telecommunication companies to exchange messages for mobile payments. The Inter-Scheme Settlement Provider's function is to furnish net positions of transactions across schemes to the inter-bank settlement system. This ensures the conclusive payment for services consumed through two different Schemes by different participants.³³

²⁹ Nigeria Inter-Bank Settlement System Plc (NIBSS) was incorporated in 1993 and is owned by all licenced banks including the CBN.

³⁰ See (n29)

³¹ *Ibid.*

³² See (n24)

³³ *Ibid.*

Infrastructure providers are to comply with “Guidelines on Transactions Switching in Nigeria” and “Guidelines on Operations of Electronic Payment Channels in Nigeria”.³⁴

Mobile money operators (MMOs) can outsource certain services, known as by-product services, to specialised business entities. These entities have the necessary skills and resources to provide more efficient and effective support for these services. The service providers can use the infrastructures of the MMOs to offer these services to the end users. The Central Bank of Nigeria recognizes the value of outsourcing by-product services to provide better mobile money services.³⁵

Mobile money services must provide consumers with ease of enrolment and use, privacy, trust and security of transactions, convenience, accessibility to funds upon completion of transactions, and real-time transfer of value. In addition, they should offer easy and prompt access to the dispute resolution process, ensure the protection of Personal Identification Numbers/Passwords, and ensure prompt reporting of fraud cases, errors and complaints. Consumers must also verify transaction details and recipients' mobile phone numbers before authorising transactions, follow all security rules provided by the scheme operator, and escalate complaints to the Consumer Protection Departments of the CBN if a resolution of complaints is unduly delayed.³⁶

Mobile money agents are third-party representatives of mobile money service providers. They serve as direct contacts between the service provider and the end-users of the service. These agents are businesses contracted by financial institutions to provide specific financial services on their behalf from the agent's location. The activities of mobile money agents are subject to the "Guidelines on Agent Banking and Agent Banking Relationship in Nigeria".³⁷

3.2 Rules for Mobile Money Operators

The Guidelines provide rules for Mobile Money Operators (MMOs) to follow while transacting their business. These rules include licensing, permissible activities, transactions, activation, operation of mobile payment transfers, settlement accounts, operation of saving wallets, etc. Some of the rules are:

³⁴ *Ibid.*

³⁵ *Ibid.*

³⁶ *Ibid.*

³⁷ <https://www.cbn.gov.ng/out/2013/ccd/guidelines%20for%20the%20regulation%20of%20agent%20banking%20and%20agent%20banking%20relationships%20in%20nigeria.pdf> accessed 27 August 2023.

- MMOs must be issued a unique scheme code by the Nigerian Inter-Bank Supplementary System (NIBSS) as a unique short code by the NCC;
- They must ensure that their telecommunication equipment is type-approved by the NCC;
- They must insure the total outstanding (unspent) balance which represents Mobile Money Subscribers' unspent funds up to the applicable coverage level by the Nigeria Deposit Insurance Corporation (NDIC);
- They can engage in only permissible activities such as wallet creation and management, e-money issuance, non-bank acquiring, card acquiring, pool account management, agent recruitment, etc.;
- They must ensure that registered users activate their service before commencing transactions with a security code;
- Transactions initiated and concluded within their mobile payment system must contain detailed information and have a unique transaction reference issued by the system;
- They must appoint and notify the Central Bank of Nigeria (CBN) of their settlement banks;
- They must settle all obligations arising from mobile payment transactions into settlement accounts held with Deposit Money Banks, and they must maintain separate accounts for their other business activities;
- The settlement account will be a non-interest-bearing account and will have no right of set-off and no form of bank charges;
- They must ensure compliance with rules for the operation of Bank, Card, and Store Value Account Based mobile payment transactions;
- They must put in place detailed processes that cover the entire solution delivery, from user registration and management, agent recruitment and management, Consumer protection, dispute resolution procedures, and Risk management processes, to transaction settlement;
- If an MMO intends to provide a savings wallet service, it must notify the CBN and obtain its approval;
- Scheme operators (MMOs that are Banks) are required to maintain a minimum shareholder funds of N2,000,000,000.00 (Two Billion Naira Only) unimpaired by losses at all times or such other amount as may be prescribed by the CBN from time to time;

- They must assign a risk management officer tasked with providing internal risk management oversight;
- They must have well-documented and tested business continuity plans (BPC) approved by the board that address all aspects of the mobile money business to take care of business disruptions and ensure system availability and recoverability;
- They must ensure that the Mobile Money infrastructure BCP is tested through a fail-over process at least twice a year that the fail-over is tested at least quarterly, and that enterprise-wide BCP is tested every year;
- They must ensure that a channel of communication is in place 24/7 to entertain enquiries and complaints in a language understood by customers;
- They must resolve customer complaints within a reasonable time and not later than 48 hours from the date of reporting or complaining with the MMO.³⁸

3.3 Prohibited Activities of Mobile Money Operators

The MMOs are not permitted to grant any form of loans, advances and guarantees (directly or indirectly), accept foreign currency deposits, dealing in the foreign exchange market except when carrying out payments and remittances (including inbound cross-border personal remittances) services through various channels within Nigeria and, the sale of foreign currencies realized from inbound cross-border personal remittances to authorized foreign exchange dealers, insurance underwriting, accept any closed scheme electronic value (e.g. airtime) as a form of deposit or payment, establish any subsidiary, and undertake any other transaction which is not prescribed by the Guidelines.³⁹

4.0 Advantages of Mobile Money Services

Technology has transformed various sectors, and the use of Information and Communication Technology (ICT) has made it possible for people in Nigeria to perform financial transactions on their mobile devices. This concept is known as mobile money or electronic wallets (e-wallets), and it has gained significant popularity in Nigeria. Banks provide support to small

³⁸ <[The New Central Bank of Nigeria Regulatory Framework and Guidelines for Mobile Money Services in Nigeria \(afriwise.com\)](#)> accessed 21 March 2024

³⁹ *Ibid.*

agents and operators to introduce some aspects of traditional banking to both banked and unbanked Nigerians.

In Nigeria, there are small businesses that offer financial services to their customers using POS machines, tablets, and phones. These businesses are found on almost every street in towns and cities throughout the country. They provide services such as withdrawing and transferring cash, paying bills for electricity, digital or cable television subscriptions, and other financial services. Customers no longer have to physically visit an electricity distribution company's office to buy electricity tokens to load their prepaid meters. Now, this can easily be done in the comfort of their own homes.

Mobile payments are extension of the everyday tasks that people perform on their smartphones. With mobile payments, users can easily pay for goods and services without the need to carry cash or credit cards. This means that there is less risk of losing or having payment methods stolen. Mobile payments are secure and make the payment process more convenient than ever.

The use of electronic wallets provides an added layer of security through measures such as fingerprint scans and facial recognition, mitigating the risks of fraudulent payments. Transactions are protected against interception by internet fraudsters through the use of tokens which replace sensitive account holder information. This heightened security and benefits both businesses, consumers due to the convenience of mobile money services, digitalized financial transactions. E-wallets easily integrate into software and mobile apps to help consumers keep track of their spending, while e-receipts reduce paper waste and lower costs for businesses.

In addition, mobile payments are incredibly fast and convenient, eliminating the need for customers to count cash or wait for chip card transactions. With just a simple glance at their mobile device, customers can authenticate transactions, creating a seamless and user-friendly experience for all.

Besides, the COVID-19 pandemic made mobile money agents more popular since big financial service providers embraced the concept. This led to the creation of several partners and agents across the country who operate outlets where people can walk in and carry out most of their financial transactions at a small fee.⁴⁰

⁴⁰ Janet John, 'The Rise of Mobile Money Operators in Nigeria', (Nairametrics, 2021) <<https://nairametrics.com/2021/05/06/the-rise-of-mobile-money-operators-in-nigeria/>> accessed 15 August 2023.

4.1 Challenges Hampering Mobile Money Services in Nigeria

Mobile money operators face significant challenges in Nigeria due to the lack of proper infrastructure, limited internet access, illiteracy, and logistic hurdles. The scarcity of financial access points in the country, with less than 16,000 available, has contributed to the gap in financial inclusion. Sadly, only 22% of the people living in rural areas have access to financial services within a three-mile radius of their homes, making it discouraging for many to reach mobile money agents, even if they would have otherwise used their services.⁴¹

The quality of mobile phone services in Nigeria is often poor, making transactions and other activities challenging due to network obstructions and technical issues. Hence, the growth of mobile money operations in Nigeria is hindered by poor network coverage and a high number of failed transactions, leading to a complicated and unpleasant user experience. These issues often lead customers to approach their banks to file complaints. However, users have no specific recourse in case of a failed transaction, and mobile money operators often blame the mobile network infrastructure for this challenge.⁴²

One of the common challenges faced by users in Nigeria's mobile money market is the difficulty in navigating the transaction process of some mobile money applications. This often results in genuine transactions becoming unnecessarily complex, leaving customers dissatisfied. Therefore, mobile money service providers must ensure that their transaction processes are user-friendly and easy to navigate to provide a seamless experience for their customers.⁴³

Many mobile money agents in Nigeria face the challenge of being mistrusted by users, especially in rural areas where people are more likely to trust agents who are from their communities and speak their language. Some mobile money platforms also have conditions for

⁴¹ See SOTIR_2013.pdf (gsma.com)

<[https://www.google.com/search?q=SOTIR_2013.pdf+\(gsma.com\)&oq=SOTIR_2013.pdf+\(gsma.com\)&aqs=chrome..69i57j33i160.1558j0j9&sourceid=chrome&ie=UTF-8](https://www.google.com/search?q=SOTIR_2013.pdf+(gsma.com)&oq=SOTIR_2013.pdf+(gsma.com)&aqs=chrome..69i57j33i160.1558j0j9&sourceid=chrome&ie=UTF-8)> accessed 1 September 2023.

⁴² In Nigeria, 51% of mobile users experience dropped calls, 65 percent of users report having to dial twice to get through, and 25 percent often have to dial three times. See PowerPoint Presentation (helix-institute.com) <[https://www.google.com/search?q=PowerPoint+Presentation+\(helix-institute.com\)&oq=PowerPoint+Presentation+\(helix-institute.com\)&aqs=chrome..69i57j33i160i2.2039j0j9&sourceid=chrome&ie=UTF-8](https://www.google.com/search?q=PowerPoint+Presentation+(helix-institute.com)&oq=PowerPoint+Presentation+(helix-institute.com)&aqs=chrome..69i57j33i160i2.2039j0j9&sourceid=chrome&ie=UTF-8)> accessed 1 September 2023.

⁴³ See mobile_money_in_nigeria_the_user_experience.pdf (findevgateway.org)

<[https://www.google.com/search?q=mobile_money_in_nigeria_the_user_experience.pdf+\(findevgateway.org\)&oq=mobile_money_in_nigeria_the_user_experience.pdf+\(findevgateway.org\)&aqs=chrome..69i57.2703j0j9&sourceid=chrome&ie=UTF-8](https://www.google.com/search?q=mobile_money_in_nigeria_the_user_experience.pdf+(findevgateway.org)&oq=mobile_money_in_nigeria_the_user_experience.pdf+(findevgateway.org)&aqs=chrome..69i57.2703j0j9&sourceid=chrome&ie=UTF-8)> accessed 1 September 2023.

use that hinder their growth in Nigeria. For instance, a savings account can cost up to NGN250 per month, which is too expensive for the 41% of the population earning less than \$361 a year.⁴⁴

Meanwhile, regulatory bodies and institutions such as the Central Bank of Nigeria and the Nigerian Communications Commission have a responsibility to enforce laws and regulations effectively to ensure the success of mobile money operations in Nigeria. When there is a gap between legal provisions and their practical implementation, legal issues arise. Thus, institutional capability is crucial in mobile money regulation, affecting licensing and oversight, risk management, consumer protection, and technology and infrastructure.

For instance, on licensing and oversight, the Central Bank of Nigeria grants licenses to Mobile Money Operators (MMOs) and oversees their operations. The CBN also ensure MMOs comply with legal requirements, including anti-money laundering regulations and consumer protection.

On risk management, effective institutions monitor and manage risks associated with mobile money services. In this case, legal frameworks require robust risk assessment, fraud prevention, and dispute resolution mechanisms which are all what the main regulators of mobile money operations in Nigeria are doing. In consumer protection, the regulators play a crucial role in safeguarding consumers' interests by enforcing the legal provisions that are related to 'Know Your Customer' (KYC) requirements and Customer Due Diligence (CDD) which are essential for protecting users. Technology and Infrastructure is another area in which there must be an institutional capability to ensure that mobile money systems have the necessary technology infrastructure. Legal clarity on technical standards and interoperability enhances the ecosystem. Thus, improving institutional capability can foster innovation, boost financial inclusion, and provide an alternative to the mainstream banking system. However, weak institutions may lead to inconsistent enforcement, hindering the effectiveness of mobile money regulation.

In summary, the interplay between legal frameworks, institutional strength, and effective regulation is critical for the success of mobile money services in Nigeria. Strengthening institutions will enhance financial inclusion and drive economic efficiency through mobile channels.

⁴⁴ Nigeria: poverty rate, by state 2019 | Statista

<<https://www.google.com/search?q=Nigeria%3A+poverty+rate%2C+by+state+2019+%7C+Statista&aq=chrome..69i57j69i58.3083j0j7&sourceid=chrome&ie=UTF-8>> accessed 1 September 2023.

5.0 Conclusion

This paper discusses how mobile payment technology is becoming more prevalent today. It explains that mobile money services can be performed using any smart device, so users can access their money anytime, anywhere, even without a bank account. This way, people can convert cash into electronic money and credit into mobile devices, and conduct financial transactions through their mobile phones, reducing their dependence on cash. This helps provide more financial services to those without access to banks. Mobile transfers, cash withdrawals, and deposits through mobile platforms have a significant effect on financial inclusion.

The paper recommends that all financial institutions embrace mobile money services to promote financial inclusion. This helps provide financial services to people who would otherwise not have access to them. To sell mobile money services to people in rural communities, Mobile Money Operators (MMOs) should advertise their products in local languages and use familiar images to help illiterate users.⁴⁵

The paper also highlights some problems faced by mobile money operations in Nigeria, particularly issues with the users' experience. Therefore, more efforts should be made to improve users' experience and the quality of service. The paper also notes that technology is developing rapidly in Nigeria, and mobile money services are evolving to complement regular banking services. The Central Bank of Nigeria (CBN) and the Nigerian Communications Commission (NCC) are providing a relevant regulatory environment to promote mobile money services across the country.⁴⁶

Lastly, the paper emphasises that mobile money services exist to bridge the financial inclusion gap for unbanked and under-banked populations. Therefore, the registration process should be made simpler to accommodate the needs of illiterate people. It is also important to involve professionals in the financial sector to ensure that the mobile money market in Nigeria operates in a way that fulfils the Federal Government's mandate of financial inclusion and cashless policy.

⁴⁵ See Slide 1 (efina.org.ng)

<[https://www.google.com/search?q=Slide+1+\(efina.org.ng\)&oq=Slide+1+\(efina.org.ng\)&aqs=chrome..69i57.1672j0j9&sourceid=chrome&ie=UTF-8](https://www.google.com/search?q=Slide+1+(efina.org.ng)&oq=Slide+1+(efina.org.ng)&aqs=chrome..69i57.1672j0j9&sourceid=chrome&ie=UTF-8)> accessed 4 September 2023.

⁴⁶ *Ibid.*