



REGULATORY FRAMEWORK FOR MOBILE MONEY OPERATIONS IN NIGERIA.



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INTRODUCTION

Mobile money is a technology that allows people to receive, store and spend money using a mobile phone. It is sometimes referred to as a ‘mobile wallet’.

The interplay between the growing mobile phone usage, fast internet connections and Africa’s unbanked and underserved has led to a boom in mobile banking and mobile money services across the continent’s emerging markets. Mobile Money Services have become so important that the development of novel methods to enable individuals to access formal financial services and become part of the formal financial system, is considered a key prerequisite for driving economic growth and financial inclusion.

The success of mobile money lies in the fact that it leverages the ubiquity of mobile phones and the extensive coverage of mobile operators. Mobile money upsets and complements traditional banking services.

KEY REGULATIONS AND REGULATORY APPROACHES

In July 2021, The Central Bank of Nigeria (“CBN”) published a Circular titled “Framework and Guidelines on Mobile Money Services in Nigeria” (“the Circular”) to govern the operation of mobile money services and specify the basic functionalities expected of any mobile payment service and solution in Nigeria.¹ The Circular is divided into two: the Regulatory Framework for Mobile Money Services in Nigeria (“**the Framework**”) and “**the Guidelines** for Mobile Money Services in Nigeria” (“the Guidelines”).

On the one hand, the Framework identified two models for the implementation of mobile money services, namely:

- a. **Bank Led Model:** This involves a bank or a consortium of banks, whether or not in conjunction with other approved organisations, seeking to deliver banking services by leveraging on the mobile payment systems. The bank (or consortium of banks) shall be the lead initiator.
- b. **Non-Bank Led Model:** This model involves a corporate entity that is licensed by the CBN to deliver mobile money services to customers.. The lead initiator shall be a corporate entity other than a deposit money bank, a national primary mortgage bank, a national microfinance bank or a subsidiary of a telecommunication company.

The objectives of the Framework include, among others, to provide an enabling environment for the adoption of mobile money services with a view to reducing cash dominance in the Nigerian economy; to ensure a structured and orderly development of mobile money services in Nigeria, with a clear definition of various participants; to specify the minimum technical and business requirements for these participants and promote the safety and effectiveness of mobile money services in Nigeria.

MOBILE MONEY SCENARIOS

The Framework also identifies three methods through which mobile money services can be carried out in Nigeria. These include:

¹ The Circular was issued pursuant to the powers of the CBN 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.

- a. **Bank Account Based Scenario:** This method entails the delivery of mobile money services through the bank accounts of customers. Bank Account-Based method includes Pull-Based Account transactions (debits through a mobile money solution) and Push-Based Account transactions (credits through a mobile money solution).
- a. **Card Account-Based Scenario:** This involves a payment card that is linked to a mobile phone for the purpose of initiating and concluding payment transactions. Card Account-Based scenarios are credit, debit and pre-paid cards.
- a. **Store Value-Based Scenario:** This method entails the delivery of mobile money services through a system based account that complies with the standards defined within the Framework.

Obligations of MMOs: Under the Framework and Guidelines an MMO is required to:

- a. comply with the extant KYC and Customer Due Diligence laws and the CBN Anti-Money Laundering Regulations;
- b. put in place a dispute resolution mechanism;
- c. implement technologies that are compliant with the standards and requirements on international best practices for mobile money services;
- d. put in place a risk mitigation programme to minimize operational, liquidity, technical, fraud, financial and money laundering risks. The MMO should also appoint a Risk Compliance Officer to oversee risk management.
- e. ensure strict adherence to the risk management governance provisions specified in the extant Code of Corporate Governance as may be applicable to MMOs.

The Guidelines mandate an MMO to:

- i. Be licenced by the CBN;
- ii. Be issued a unique Scheme Code by the Nigerian Inter-Bank Settlement System (NIBBS) for managing interoperability;
- iii. Be issued a unique shortcode by the Nigerian Communications Commission and ensure that all telecommunication equipment is approved by the NCC;
- iv. Register users of its scheme based on technology standards and the requirements of the Guidelines;
- v. Ensure that the registration processes within its mobile money scheme fulfil the entire KYC requirements specified in the Guidelines.
- vi. The total outstanding balance which represents Mobile Money Subscribers' unspent funds shall be insured up to the applicable coverage level by the Nigeria Deposit Insurance Corporation ("NDIC").²

Under the NDIC's "Pass-Through Deposit Insurance Scheme", the NDIC insures funds that are deposited by an MMO with DMBs. Each subscriber of MMOs is insured up to the maximum coverage level of N500,000.00.

² See <https://ndic.gov.ng/ndic-releases-deposit-insurance-guidelines-on-mobile-payments-system/assessed-25.06.21>

The Guidelines also provide for the roles and responsibilities of participants in the mobile money ecosystem, such as the Regulators, MMOs, Infrastructure Providers, other Service Providers, Mobile Money Agents, and Consumers.

MMOs are required to submit to the CBN, data and other information on their mobile money operations at the end of every month and not later than the 14th day of the next month, including nature, value and volume of transactions, incidents of fraud, and nature and number of customer complaints and remedial measures taken. Failure to comply with any of the provisions of the Guidelines may attract sanctions against the MMO, its Board of Directors, officers, or agents. The sanctions may range from withholding corporate approvals, financial penalties, suspension from mobile money operation to revocation of the mobile money license.

In 2015, the CBN issued the Guidelines on International Mobile Money Remittance Service (“**IMMRS Guidelines**”). The IMMRS Guidelines provides the business rules governing the operation of IMMRS and specify the infrastructural and risk management requirements for international mobile payments services in Nigeria. It also identifies the participants (including Banks, infrastructure providers, mobile network operators and consumers), defines their expected roles and responsibilities in the system, and sets the basis for the regulation of services offered by the participants.

The permissible activities of an IMMRS include allowable inbound and outbound transactions as follows: inbound remittances (receipt of monies transmitted via a mobile phone and other devices to persons resident in Nigeria) and outbound remittances (which includes all person-to-person remittances from Nigeria towards family maintenance).

An entity cannot render International Mobile Money Remittance services without the approval of the CBN which is only granted subject to certain conditions: The entity shall:

- a. Be a registered entity and licensed in its home country to carry on mobile transfer services;
- b. Have a minimum net worth of USD1 billion, according to the latest financial statement, or as may be determined by the CBN;
- c. Hold a valid MMO license;
- d. Be a well-established entity with presence in at least 20 countries and at least 10 years experience in the money transfer business;
- e. Have an MOU that clearly delineates liabilities in the event of disputes and/or process failures;
- f. Have a partnership with at least one authorised dealer bank in Nigeria.

IMMRS are also required to submit to the CBN, data and other information on their mobile money operations at the end of every month and not later than the 10th day of the next month, including nature, value and volume of transactions, incidents of fraud, and nature and number of customer complaints and remedial measures taken.

In December 2020, the CBN issued a “New License Categorisations for the Nigerian Payment System” (“**NPS Circular**”) to provide clarity on the framework and licensing regime for payment systems in Nigeria. The NPS Circular introduced a number of sweeping disruptions to the Nigerian payments system. With the introduction of the NPS Circular, only MMOs are permitted to hold

customer funds. It is now clear that other payment service providers can no longer hold customers funds.

The NPS Circular prescribes a minimum share capital requirement of Two Billion Naira (N2,000,000,000) for MMOs. In addition, Fintech companies are now prohibited from combining switching and MMO activities under the same entity in order to prevent comingling of activities under the same entity. However, they may operate as different subsidiaries under a holding company and must have their activities clearly delineated.

Permissible³ Activities: MMOs are permitted to carry out the following activities:

- a. Issuance of E-money;
- b. Wallet creation and management;
- c. Pool account management;
- d. Agent recruitment and management;
- e. non-bank Acquiring as stipulated in the regulatory requirements for non-bank merchant acquiring in Nigeria;
- f. Card Acquiring;
- g. And any other activities that may be permitted by the CBN.

However, MMOs are not permitted to carry out the following activities:

- a. Grant any form of loans, advances and guarantees;
- b. Accept foreign currency deposits;
- c. Deal in the foreign exchange market except as prescribed in Section 4.1 (ii & iii) of the extant Guidelines for Licensing and Regulation of Payment Service Banks in Nigeria;
- d. Insurance underwriting;
- e. Accept any closed scheme electronic value (such as airtime) as a form of deposit or payment;
- f. Establish any subsidiary;
- g. Undertake any other transaction which is not prescribed by the Guidelines; and
- h. And any other activities that may be prohibited by the CBN.

APPLICATION FOR MMO LICENSE

On 24th May 2021, the CBN issued a circular on the licensing requirements for Payment Service Providers (“PSPs”). The circular provides for the licensing requirements of MMOs which are outlined below:

- a. An applicant for an MMO license must be a company incorporated with the Corporate Affairs Commission (CAC). The memorandum of association should be restricted to the permissible activities for MMOs identified above.

3 Permissible activities for MMOs are provided in the NPS Circular and the Guidelines on Mobile Money Services in Nigeria.

- b. **Capital Requirements:** The Applicant must possess N2 billion of shareholder's funds unimpaired by losses. The Applicant is required to deposit, in its own name, a refundable lump sum of N2 billion into the CBN PSP Share Capital Deposit Account. The escrowed funds are invested in treasury bills subject to the availability of treasury instruments, which would be refunded accordingly.
- c. **Documentary Requirements:** The Applicant shall produce the following documents in support of the application for the license:
 - iv. The audited financial statements for the preceding three years (if applicable);
 - v. Certificate of Incorporation of the company;
 - vi. Memorandum & Articles of Association;
 - vii. Form CAC 2A (Return on Allotment of shares);
 - viii. Form CAC 7A (Particulars of Directors);
 - ix. Tax Clearance Certificate for three (3) years of the company (if applicable) and Taxpayer Identification Number (TIN) of the company;
 - x. The company's profile; detailing the current type of business operation, products and services, etc.

The applicant is required to provide a non-refundable application fee of N100,000.00 and a licensing fee of N1,000,000 where the application is successful. Initially, an approval-in-principle is granted for a period of six months. The duration of the commercial license is determined by the CBN upon satisfactory performance of operations.

SIGNIFICANT DEVELOPMENTS IN THE MOBILE MONEY MARKET IN NIGERIA.

A notable development in the mobile money landscape in Nigeria is the significant growth in mobile payments transactions in the country. In January 2020, the volume of mobile payment transactions experienced a massive increment as transactions grew from 724,803 as of January 2019 to 7.4 million transactions by January 2020. Between May 2019 and July 2020, data from Nigerian Inter-Bank Settlement Scheme (NIBSS) reported that mobile payment transactions across the country grew by 391%.⁴ This represented the volume of mobile payments transaction handled by mobile money operators such as FirstMonie, Opay, Paga, among others. NIBSS also reported that in 2020, Nigerian merchants and MMOs handled over 655 million point-of-sale (POS) transactions worth N4.7 trillion (\$13 billion). These figures represented a 50% increase from the previous year, 2019.⁵ The downturn of economic events globally as a result of the COVID 19 Pandemic had no significant effect on mobile money operations globally as Global System for Mobile Communications Association (GSMA) reported that despite the pandemic the global mobile money landscape experienced dramatic growth.⁶ Similarly, in Nigeria, reports from the NIBSS showed that mobile money transactions grew by 14.5 percent between February and March.⁷

The volume of mobile payments declined by 19.6 percent in April. By May, however, the volume and value of mobile payments grew as the transactions processed totalled 9.5 million transactions, and

4 See [Mobile payments in Nigeria have grown 391% in 1 year | TechCabal](#) assessed 23.04.21.

5 See [Diversifying Payments for Businesses and their Consumers in 2021 - Businessday NG](#) assessed 23.04.21.

6 See [GSMA | State of the Industry Report - Mobile for Development](#) assessed 23.04.21.

7 See [Coronavirus Pandemic Fuels Mobile Money Transactions in Nigeria | Voice of America - English \(voanews.com\)](#) assessed 23.04.21

N230 billion was made.⁸ Financial inclusion has been imparted in the country via the operations of mobile money operators in the country through mobile payments transactions and the financial inclusion gap between many that are financially served, those who are under-served, and those who are un-served are being bridged.

Another significant development in the mobile money market in Nigeria is the implementation of Payment Service Banks (PSBs) by the CBN. PSBs represent a new category of banks allowed to accept deposits from individuals and small businesses, carry out payments and remittances, sell foreign currencies realized from inbound cross-border personal remittances to authorized foreign exchange dealers, issue debit and pre-paid cards on its name, operate electronic wallet, render financial advisory services, invest in Federal Government's and Central Bank's securities and other activities as may be prescribed by the CBN from time to time.⁹

The category of entities permitted to operate as PSBs includes telecommunications companies (through their subsidiaries), retail chains (supermarkets, downstream petroleum marketing companies), postal services providers and courier companies, mobile money operators with the plan to convert to PSBs, fintech companies and financial holding companies. The implementation of this has prompted local mobile network operators to launch mobile money services and the grant of operating licenses to three PSBs¹⁰ in September 2019 by the CBN was the official indication by the regulator to telecommunication companies' to sell mobile money services in Nigeria.

As with every other sector of the Nigerian economy, the mobile money industry is also plagued with government's policies that adversely impacts its operation. Vide a circular referenced PSM/DIR/CON/CWO/16/119 dated 16th December 2020, the CBN instructed MMOs to disable their wallets from receiving remittances from International Money Transfer Operators (IMTOs). It also directed all payment switches and processors to desist from processing any local currency transfers in respect of remittances through IMTOs. Likewise, payment services companies were instructed to stop integrating their systems with IMTOs and ensure that the mingling of remittances with other legitimate transactions is prevented. This circular was released sequel to a regulatory directive released by the CBN instructing all operators to pay remittances in US dollars which the regulator claimed some operators disregarded and continued to pay in the local currency.

The business model of MMOs who operated wallets that allowed their users to receive remittances from outside the country were affected as funds sent from outside the country can no longer be received in online wallets. Recipients/beneficiaries of funds sent from outside the country now have the option of receiving the funds as cash in foreign currency or have their domiciliary account credited.¹¹

In addition to this, all forms of integration and collaborations between MMOs, Switches, PSPs, and IMTOs with regard to diaspora remittances have been banned. As such, any MMO whose operation is solely dependent on integration or collaboration with payment switches, processors or IMTOs is severely impacted.

8 Ibid

9 See [GUIDELINES-FOR-LICENSING-AND-REGULATION-OF-PAYMENT-SERVICE-BANKS-IN-NIGERIA..pdf \(seftonfross.com\)](#) assessed on 23.04.21.

10 The three PSBs are Hope PSB, a subsidiary of Unified Payments, Moneymaster PSB, a subsidiary of Glo, a telecom company and 9PSB, a subsidiary of 9mobile, a telecom company.

11 See [Diaspora Remittances In Nigeria: Examining The New CBN Policy - Finance and Banking - Nigeria \(mondaq.com\)](#) assessed on 23.04.21.

CHALLENGES FACING THE MOBILE MONEY MARKET IN NIGERIA.

In spite of the important role played by MMOs to stimulate economic growth and to bridge the financial inclusion gap in the country, their operation and growth are hampered by a number of factors.

The infrastructural deficit in the country remains a major challenge faced by operators in the mobile money market in the country. The lack of internet access and illiteracy in most parts of the country where these services are needed is a major challenge. Coupled with this are other logistical issues that plague the operation of mobile money in Nigeria. This further widens the financial inclusion gap.

Nigeria has less than 16,000 access points to any kind of financial services and only 22% of poor Nigerians living in rural areas lives within three miles of such access points.¹² Therefore, having to trek long distances to reach mobile money agents discourage many from patronizing their services.

Another challenge facing the operation of mobile money in Nigeria is the low quality of mobile phone service in Nigeria. Users constantly complain of low quality of services, such as glitches in transactions and the issue of recurring network interruptions.¹³ Poor network coverage and volume of failed transactions that will require having to go to the bank to make a complaint are factors impeding the development of mobile money operations in Nigeria because they make the consumer experience complicated and undesirable. This is coupled with the problem of lack of recourse for a user in instances of failed transactions. Mobile money operators blame the mobile network infrastructure for this challenge, leaving subscribers with no specific recourse.¹⁴

The inability of many users to handle the transaction protocol of some mobile money applications is also a problem in the mobile money market in Nigeria. Customers become dissatisfied when straightforward transactions become unnecessarily complex, and they require an excessive number of steps, and/or an inordinate amount of time.¹⁵ Lack of trust in many mobile money agents is another operating challenge in Nigeria. Users in rural areas would most likely trust agents who are from the same communities and speak their languages more than they would trust an agent who is seen as a foreigner.

Some of the conditions for the use of some mobile money platforms also operate as impediments to their growth in Nigeria. It may cost as high as N250 for a monthly maintenance fee for a savings account. With 41% of the population living under 361 dollars, per year, these fees can be seen as too exorbitant.¹⁶

WHAT IS THE WAY FORWARD?

To sell mobile money services to people in rural communities, operators need to consider the necessity of advertising these products in the local languages of the different communities they intend to operate in. To aid illiterate users, services can be sold to them using familiar images. At the core of the problems faced by mobile money operations in Nigeria are various user experience

12 See [SOTIR_2013.pdf \(gsma.com\)](#) assessed on 23.04.21.

13 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 \(helix-institute.com\)](#) assessed on 23.04.21.

14 See [PowerPoint Presentation \(helix-institute.com\)](#) assessed on 23.04.21.

15 See [mobile_money_in_nigeria_the_user_experience.pdf \(findevgateway.org\)](#) assessed on 23.04.21.

16 See [Nigeria: poverty rate, by state 2019 | Statista](#) assessed on 23.04.21.

issues. As such, more efforts should be channelled towards improving user experience

Mobile money operators also need to improve their quality of service. Operators need to imbibe efficiency in resolving user complaints.¹⁷

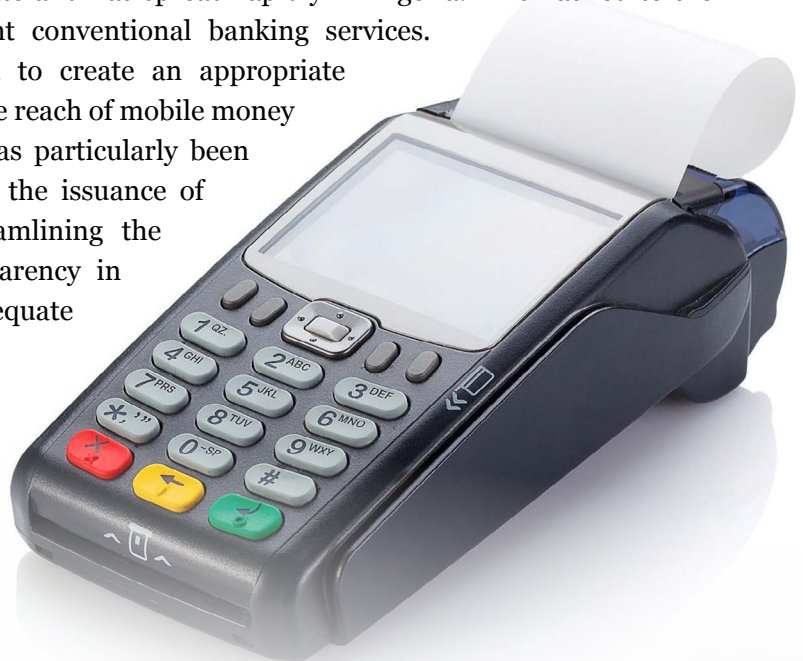
Typically, Mobile money services exist to ensure that the financial inclusion gap is bridged so that the large percentage of poor Nigerians that have no access to financial products are financially included. Therefore, the registration process should be as easy as it possibly can to accommodate the needs of the uneducated public. Also, conditions for the operation of savings accounts such as minimum initial deposit, maintenance fees, or interest charges should be restructured as the economic realities of a poor Nigerian will make the maintenance of such savings account undesirable.

The presence of inactive operators in that sector is indicative of a lack of proper understanding of how that market operates. As such, the intervention of professionals in the financial sector is required to ensure that the mobile money market in Nigeria operates in a manner that fulfils the federal government's mandate of financial inclusion.

CONCLUSION

Technology advances at a supersonic rate and has spread rapidly in Nigeria. This has led to the development of MMOs to complement conventional banking services.

Regulators in Nigeria have continued to create an appropriate regulatory environment that spurs on the reach of mobile money services across the nation. The CBN has particularly been active in regulating the space through the issuance of legislations that are targeted at streamlining the operations of MMOs, ensuring transparency in their operations as well as ensuring adequate customer protection.



17 See [Slide 1 \(efina.org.ng\)](#) assessed 23.04.21.

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