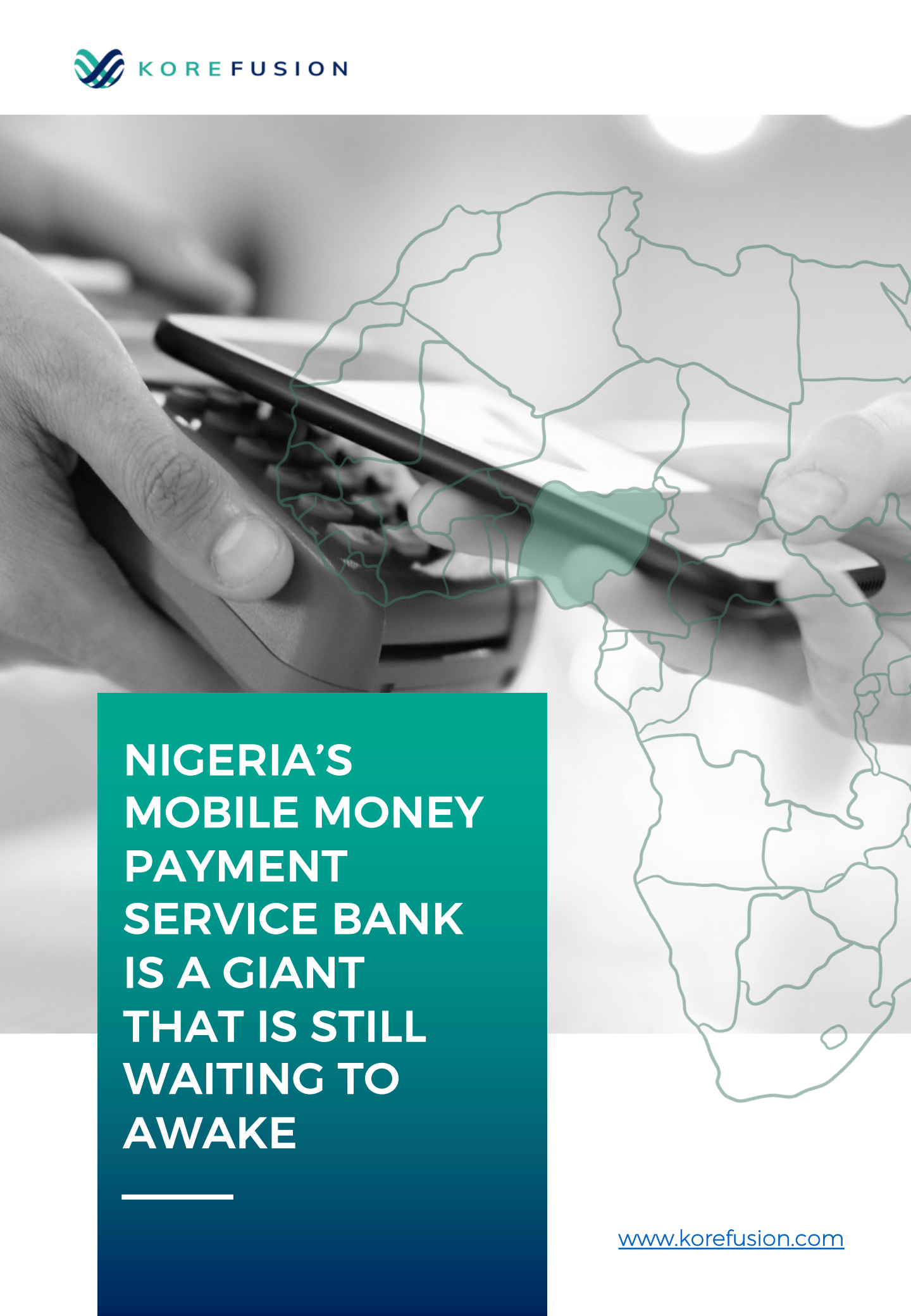




NIGERIA'S MOBILE MONEY PAYMENT SERVICE BANK IS A GIANT THAT IS STILL WAITING TO AWAKE

MTN 's Mobile Money's Payment Service Bank in Nigeria Is Stuck In Slumber.

It was long thought that Mobile Network Operators (MNOs) involvement through the Payment Service Bank (PSB) framework in Nigeria’s mobile money market would catalyze banking services and penetration.¹ This is because compared to banks and fintech, Telcos have a huge customer base of 206 million subscribers that they can leverage to boost their mobile money services rollout and adoption.² Furthermore, leaping onto the mobile money (MoMo) wagon simply requires dialing a USSD code.

The combination of 100% mobile penetration and lack of deft banking services was poised to create explosive demand for MoMo accounts. But the reality is falling very short of expectations and potential. Between May 19, 2022 to June 30, 2022, according to MTN Nigeria’s half year report, MoMo PSB registered 2.4 million actives (out of 4.2 million) wallets. 57% active rate within barely 49 days of launch is not much better than a bank account, well below the international average of Banks of 70-80%, and reveals an uptake problem. Ironically, the PSB was created to solve this uptake problem which has left 55% of Nigeria unbanked.

Before the Central Bank of Nigeria (CBN) issued PSB licenses to five applicants – four of which are subsidiaries of MNOs – mobile money services have existed under the bank- and fintech-led model³ for almost a decade.

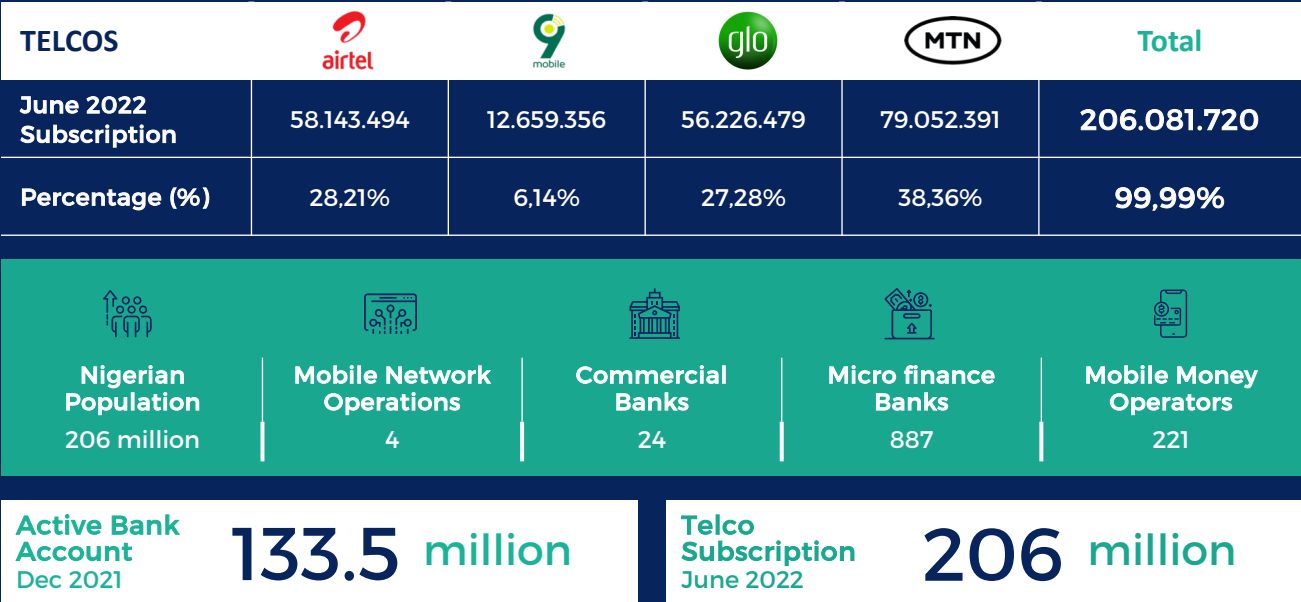
But with banks and fintechs already immersed in the mobile money industry, the CBN still introduced PSB as a measure to increase financial inclusion in the country, particularly in rural areas.⁴

Nigerians often have multiple accounts. This explains 133.5 million⁵ active bank accounts vs. a 45% bank penetration rate. This active bank account data did not reveal multiple bank account ownership which is very common in Nigeria. Because of high service failures, most Nigerians have multiple service provider accounts for redundancy.

So why, with market tailwinds and latent demand, hasn’t the PSB adoption kicked off as anticipated? The question gains more relevance when you realize that using MoMo simply requires dialing a USSD code. Despite its simplicity of use, most potential customers do not understand how MoMo works and how it can improve their livelihood.

We examine eight operational process failures that are discouraging early adopters from using MTM MoMo PSB services⁶ despite high mobile phone penetration. A common theme emerges that exposes inefficiency, inconsistency, operational and conceptual lacks, and vague strategies.

FIGURE 1



¹ GSMA 2020. State of Industry Report on Mobile Money 2019 _Full Report. [Online] Available at: <https://www.gsma.com/sotir/wp-content/uploads/2020/03/GSMA-State-of-the-Industry-Report-on-Mobile-Money-2019-Full-Report.pdf> [Accessed July 2022].

² Nigerian Communication Commission (NCC), 2022. Statistics & Report_ Industry Statistics. [Online] Available at: <https://www.ncc.gov.ng/statistics-reports/industry-overview#view-graphs-tables-2> [Accessed July 2022].

³ The bank-led model is known as ‘where a bank adopts agent networks to deliver banking services, and the fintech-led model involves the delivering of mobile money services by duly licensed fintechs. Banks’ mobile money services include Firstmonie by Firstbank, and Access Closa by Access Bank, while the fintechs offering mobile money services include Paga, Moniepoint by TeamApt, and OPay.

⁴ The PSBs were mandated by the CBN to have 25% financial service touch points in rural areas where users are most marginalized from financial services due to a lack of bank presence.

⁵ Nigeria Inter-Bank Settlement System Plc (NIBSS), 2022. Media Update. [Online] Available at: <https://nibssplc.com.ng/news/40t2t6rx62zbf67xa7qmydxma> [Accessed July 2022].

⁶ We used MTN MoMo because MTN has the largest subscriber (38.36%) market share in Nigeria.

Eight Reasons Keeping MoMo PSB From Success

01 Lack of Awareness of MoMo PSB Across all User Categories

Since the launch of MoMo PSB, its promotion has not been nearly as popular as it should have. KoreFusion recently conducted an experiment to verify this supposition. We created a MoMo account funded through a bank account and asked about 400 people on our contact lists to create a MoMo account and share their account number (phone number) with us so that we could send money to their MoMo accounts. Of over 400 people who were asked to share their MoMo account with us in order to receive money, only one person did.⁷ Furthermore, a large number of persons consulted had never heard of MoMo.

While we understand that this was a closed experiment, and the contact list may not constitute a representative sample, it is the very fact that the contact list – comprised of educated, banked individuals, and open market traders / micropreneurs – had not heard of MoMo that interests us, since that makes it so implausible that the average Nigerian without access to adequate financial knowledge or services would have heard of it. Thorough sensitization and awareness across all categories of users is therefore needed for PSBs to gain adoption.

Coincidentally, this person works for MTN (which might explain why they already knew and had a MoMo wallet).

Would it be possible that they could use MoMo to receive money from family, friends, or business interests, but leave the money in their MoMo wallets?

As MoMo PSBs continue to engage with regulators to address this restriction, they could build products to facilitate and manage informal community-based financial arrangements like lending.

02 Limited MoMo PSB Value Proposition to Target Users

The regulatory restriction on direct lending or through a partnership with third parties means a limited value proposition for financially excluded or rural dwellers. Without owning a bank account, these financially marginalized groups leverage cooperative societies for their savings and credit/borrowing need. In other African markets like Uganda, the biggest microlenders are MNOs. Millions of subscribers borrow up to US\$ 150 max respectively via their phones. Without the lending value proposition, how can MoMo PSB users be encouraged to save when they cannot borrow as a result of their savings?



MoMo agent kiosk in Lagos

⁷ In June, the author asked her contacts on WhatsApp to share their Momo Account. Coincidentally, the only person that shared the Momo account works for MTN (which might explain why he already had the MoMo wallet).

03 Lack of Interoperability



Transfer between PSBs is yet to be operational. Though a transfer from a MoMo PSB (MTN) account to a SmartCash PSB (Airtel) was withdrawn / debited from the senders' MoMo account, the beneficiary in our experiment did not receive the fund.

NIBSS Instant Payment (NIP) facilitates interoperability between commercial banks, microfinance banks (MFBs), mobile money operators (MMOs), and Other Financial Institutions (OFIs). Peer-to-peer transfer and merchant payment cannot fully kick off without the ability to transfer from one PSB to another.

04 Inconsistent Transfer Notification



Although users receive notifications upon opening a MoMo account, the same cannot be said as they fund their account; instead, users must check their MoMo wallet to confirm deposited funds. Similarly, while a user receives SMS debit alerts upon the transfer of funds from their MoMo wallet to another user's, an alert is not sent to the receiving user. Possible reasons behind notification inconsistencies could be that MoMo PSB had failed to send them because of network downtime. It could also be that the feature was canceled as a response to electronic payments fraud known as 'alert flashing' or 'fake bank alerts', where fraudulent alerts misguided users to believe deposit transactions had occurred.

Receiving an SMS alert that not only notifies a user of a deposit but also shows their balance is much easier and user-friendly than having to query into the account to find its current balance and confirm that the transferred amount is reflected. Making users check their balance in order to confirm a deposit alienates the busy market worker in the rural area who might be trying to conserve their phone battery.

05 Lack of Clarity on Charges

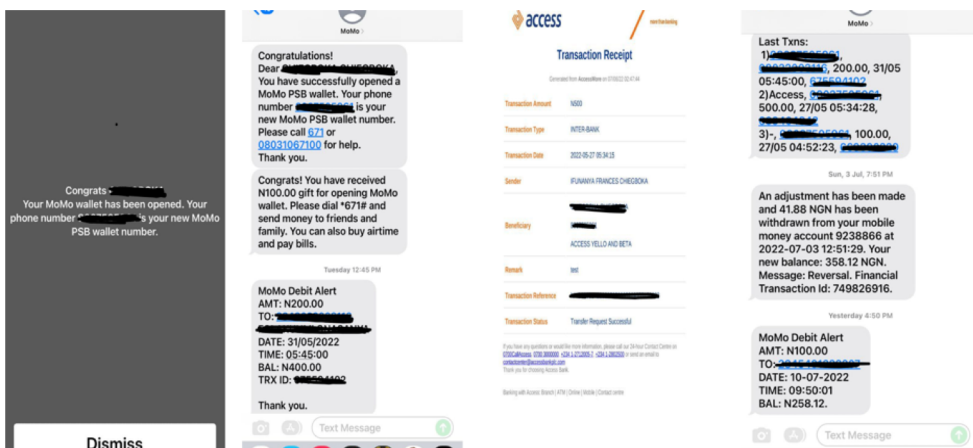


Lack of clarity on charges makes adopting financial products difficult. MoMo PSB has to be clear on transaction charges, including notifying users at the beginning of USD transactions when they will have to bear its session fee.

Currently, the way MoMo works is that after a user sets up a MoMo account, and transfers from her bank account to her MoMo account, the bank applies a flat transaction charge as a bank-to-bank transfer. While this fee is already enforced by the regulator, transferring from a bank account to another account in the same institution is free. Cost-averse customers would rather transfer funds to users who use the same bank than transfer to a MoMo account. By eliminating the cost of transfer

from a bank account to a MoMo account, MoMo PSB might incentivize users to transfer funds from bank accounts to MoMo accounts.

Also, MoMo needs to be clear on network charges, their instances, and their frequency. The target users of PSBs are price conscious and might find the charge annoying at best and fraudulent at worst.



MoMo PSB account opening and transaction journey

06 Fraud Allegations



Recent news reports⁸ revealed that MoMo PSB lost \$53 million following about 700,000 unauthorized transfers to about 8,000 accounts in 18 Nigerian commercial banks. Although it was announced that these erroneous transactions have now been reversed and technical glitches fixed, the publicity of this event diminishes the trust in MoMo PSB and deters users in the financial system, especially in an environment where there is low trust between service providers and service users. After all, if users cannot trust a big corporation like MTN to secure its platform from a technical glitch that wiped billions of naira off their accounts domiciled with banks, how could those users possibly trust MTN to safe keep their money in the long term?

MoMo PSB should pay particular attention to any pattern that deviates from the norm. It should prevent fraud or technical issues before their occurrence. They should also ensure that fraud cases are mitigated at best and speedily resolved without creating negative publicity.

MoMo agent kiosk advert



07 Vague Strategy



Nigeria's bank and fintech-led mobile money service emphasizes "cash-out" at agents' locations as the crux of operation. Nigeria is still predominantly cash-based. Users with bank accounts or wallets go to agents to cash out and then use cash to pay bills and make merchant payments. The agent is merely a replacement for an Automated Teller Machine that could be used to deposit or withdraw money. For MoMo PSB to disrupt the market, it needs to get market workers to request payments for goods and services to be sent to their MoMo account. Considering the volume of transactions that they carry out every day, targeting this population would drive adoption.

Though the Guardian newspaper reported that MTN MoMo market activation⁹ took place at the Oke-Arin market in Marina, Lagos, there are several open markets in Lagos specifically and Nigeria generally. To penetrate these markets, MoMo PSB could leverage the influence and popularity of market associations' leaders, many of whom are elected to champion the interest of the traders in the markets. These associations' leaders could encourage members to pay their weekly / monthly levies using MoMo. Since MoMo PSB incentivizes users with N100 when they open a MoMo PSB account, also incentivizing these traders to request payment via MoMo and store value in their MoMo wallets would make them free agents for MoMo PSB.

This strategy is comparable to the approach adopted by ZAAD in Somaliland.¹⁰ ZAAD encouraged users to make payments for goods and services using mobile money. By encouraging users to use their mobile wallets for transactions, users store their money digitally, use their e-value, and are less dependent on agents to cash out. This means that everyone can be an agent for cash out when the need arises because everyone has some level of liquidity. Since there is no agent exclusivity in Nigeria, PSBs are leveraging existing agent networks to increase adoption.

08 Integrating with Web Payment Providers



MoMo PSB also offers MoMo as a viable online/web payment option, such that one can pay online using a MoMo account or MoMo card the way one would use any other debit/credit card. MTN announced a mobile money partnership with Flutterwave that allows businesses integrated with Flutterwave in Cameroon, Côte d'Ivoire, Rwanda, Uganda, and Zambia to receive payments via MoMo.¹¹ Extending this partnership to Nigeria and to other web payment companies in Nigeria would make a huge impact on MoMo PSB's adoption as it becomes an alternative payment method for web transactions.

⁸ Azu, J. C., 2022. Daily Trust Dailys. [Online] Available at: <https://dailytrust.com/mtn-alleges-n22bn-fraud-on-mobile-money-banking> [Accessed July 2022].

⁹ Adepetun, A., 2022. MTN, Airtel begin formal PSB operations in Nigeria. [Online] Available at: <https://guardian.ng/business-services/business/mtn-airtel-begin-formal-psb-operations-in-nigeria/>

¹⁰ GSMA, 2019. Telesom ZAAD Pushing the mobile money CVA frontier. [Online] Available at: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2019/06/Somaliland_Mobile_Money_CVA_Case_Study_Web_Singles.pdf [Accessed 26 July 2022].

¹¹ MTN Group, 2022. MTN MoMo and Flutterwave Partnership. [Online] Available at: <https://www.mtn.com/tag/mtn-mobile-money/> [Accessed 26 July 2022].

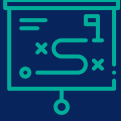
Lessons Learned

In summary, it is essential that MTN promotes MTN MoMo across all user categories to gain wide adoption. It is vital that MoMo services improve with regard to interoperability, consistent transaction notifications, clarity of charges, and active fraud mitigation. These improvements would build trust among users, a critical factor for the financially excluded population whose low-value transaction makes them very cost sensitive.

It is also useful to study other markets. Adopting an approach similar to ZAAD Somaliland’s strategy alongside the high mobile phone penetration would create the basis of a value proposition that would drive adoption.

Participating successfully in the mobile money business requires an in-depth knowledge of the different MMO models, as well as an understanding of each specific market’s development stage. KoreFusion has this in-depth understanding of the market.

MoMo’s areas of opportunity in order to increase its adoption

AWARENESS 	NEED BASED VALUE PROPOSITION 	INTER- OPERABILITY 	CLARITY ON CHARGES 
SECURITY OF PLATFORM 	CLEAR STRATEGY 	INTEGRATION TO ONLINE PAYMENT 	CLEAR VALUE PROPOSITION 

For more information
on KoreFusion’s
payments and fintech
research, please
contact:



information@korefusion.com

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insights and content:



www.linkedin.com/company/korefusion

Spring 2022
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AUTHOR

Ifunanya is a Senior Consultant at Korefusion. Based in Hong Kong, Ifunanya began her career working in Nigeria across retail, commercial, and corporate banking. Her experience in fintech includes being a pioneer employee at Flutterwave Inc and working for Interswitch Group. She also worked for OPay Digital Services Ltd in Hong Kong.



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