



## Digitalization of Financial Services in Nigeria: Opportunities, Challenges, and Future Prospects

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**ABSTRACT:** This paper explores the digital transformation of financial services in Nigeria, contextualizing the shift toward digital banking within the nation's socio-economic landscape. It outlines the significant benefits of digitalization for both individuals and the financial industry, highlighting the role of fintech in promoting financial inclusion and operational efficiency. However, it also examines the pertinent challenges that accompany this transition, including cybersecurity threats, financial exclusion, and the digital divide. The paper concludes with a discussion of the prospects for Nigeria's digital banking sector, emphasizing the need for collaborative efforts among stakeholders to harness the full potential of digital financial services.

**KEYWORDS:** Digital, financial services, socio-economic.

### INTRODUCTION

Nigerian financial services have witnessed steady progress in recent years in terms of innovations and adoption of technology (Guardian newspaper 2023). There has been increased adoption of digital technologies by financial services companies to provide online access to mobile payments, digital banking, and commercial and personal finance activities. Digital financial services are financial services that rely on digital technologies for their delivery and use by consumers. While most financial transactions in Nigeria still involve physical cash notes, there are strong indications of a continuing shift toward digital banking. This movement is driven by a strong collaboration between the government and private sectors, paving the way for a more robust infrastructure. The benefits of digital banking, namely convenience, unlimited access, and cost savings, are also significant drivers<sup>1</sup>.

Like e-commerce, digital banking has exploded globally since the pandemic to the extent that experts project digital banking users to reach over 3.6 billion globally by 2024. In the United States, for instance, 203 million Americans used online banking services in 2022, according to bankrate.com, while 93% of users in Great Britain prefer digital banking, based on records from Statista (Statista.com)

Nigeria's digital banking space is unfolding in two ways. Some banks are switching to cutting-edge technologies to boost their financial services, commonly termed online banking. Other internet-powered branchless banks are increasingly springing up, offering full or limited services. The latter includes fintech such as Kuda, Waya, VBank, OPay, TransferGo, and TransferWise. While they are early-stage FinTech startups, they pose worthwhile competition to traditional well-established banks. Fintech accounted for only around 1.3 percent of retail banking revenues in 2019 (Chioma G. Nkechika 2020)

According to media reports, more than 200 FinTech firms in Nigeria offer online access to digital banking, mobile payments, and commercial and personal financial activities (Daily Trust 2022).. FinTech investments <sup>2</sup>in the nation were valued at upwards of US \$200 million (PricewaterhouseCoopers report) between 2011 and 2018. McKinsey's 2019 report showed US \$460 million in FinTech investments.

### *Benefits of Digital over Traditional Financial Services*

The digitization of financial services is transforming the way we manage our money, offering a plethora of benefits for both individuals and the financial industry. Nigeria covers about 923,768 square kilometers of land, making it the 14th largest African country. It's the continent's most populous nation, though, with over 213 million people as of the latest count. Data from the Enhancing Financial Innovation & Access (EFInA) showed that 51% of Nigerian adults have access to some form of traditional financial services, while 45% have banking access as of 2020. The survey also discovered that 38 million adult Nigerians, mostly in rural areas, have no access to any financial services. However, with the digitalization of financial services the government and private sectors are optimistic that more residents will have access to online financial services in the coming years, owing to the expanding broadband coverage in the country.

The benefits of digitalization over traditional financial services can be grouped into two viz individuals and the financial industry.

**Benefit of Digitalisation to Individuals:**

- **Convenience and Accessibility:** Unlimited access to financial services through mobile apps and online banking platforms eliminate the need for physical visits during banking hours. This is especially beneficial for people with busy schedules or those living in remote areas. By downloading the bank's app on your phone and creating an account, you can log in anytime, even on the go. Bank apps are user-friendly and easy to navigate, making every transaction a breeze. With online banking, Nigerians don't have to stress over the rollout of new naira notes. Traditional banks operate from 8.00 am to 4.00 pm on weekdays and are closed on weekends and non-working holidays. On the upside, clients can still perform certain transactions via Automated Teller Machines (ATM) even after bank closures, but it would still require consumers to find the machine nearest them. On the contrary, digital banks are always open, so you can avoid the stress of going to the branch early to fulfill your financial obligations like bill payments or fund transfers. Online banking stays reliable when time is of the essence.
- **Faster and Cheaper Transactions:** Digital payments are processed instantly, eliminating the wait times associated with traditional methods like cheques or cash transactions. Additionally, digital transactions often incur lower fees compared to traditional methods. Transaction fees vary from bank to bank and are subject to government regulations. For example, debit or credit card issuances cost up to ₦50 quarterly, whereas bank transfers range from ₦50 to ₦300, depending on the amount involved. Digital banks, on the other hand, offer free debit cards and transfer fees as low as ₦10.
- **Enhanced Security:** Financial institutions invest heavily in cybersecurity measures to protect customers' data and transactions. Additionally, features like two-factor authentication and biometric verification add an extra layer of security.
- **Improved Financial Management:** Many digital financial services platforms offer budgeting tools, transaction tracking, and personalised financial insights, helping users to manage their finances more effectively.
- **Greater Financial Inclusion:** Digital financial services provide access to financial services for people who may have been excluded from traditional banking systems due to geographical or socioeconomic barriers. Conventional banks require identification, income sources, and other documents from their clients. On the other hand, digital bank applicants only need to prepare and take photos of their identification cards containing the user's name, address, and contact details. A validation or transaction number is then issued, and online applications are always approved within hours.

**Benefits to the Financial Industry:**

- **Increased Efficiency:** Automation of manual tasks and streamlined processes lead to higher operational efficiency and cost savings for financial institutions. Transactions are purely online and can be over in a few seconds to a few minutes, so long as the user has access to a fast internet connection. Instead of going to the bank, account holders with internet-connected smartphones can perform several transactions without the hassles of commuting and long queues. This is especially helpful when you're currently located in Nigeria's rural areas, where transport costs can be prohibitive. Note that Nigeria has one of the highest inflation rates in the world, at about 29% in December 2023. With online transactions, there's no need to spend on transportation fees, and you don't have to waste time waiting to be served.
- **Improved Customer Service:** Personalised and proactive customer service can be offered through digital channels, enhancing customer satisfaction and loyalty. Full-fledged digital banks don't need high costs to operate. There's no need to pay for building rentals and tellers, which allows them to maximize their profits. This benefit is passed on to their consumers through lower transaction cost. Because of the digital banking boom in Nigeria, multinational banking firm Standard Chartered has decided to close 12 of its 25 physical branches to save costs.
- **Data-driven decision-making:** Access to real-time data and analytics enables financial institutions to make informed decisions about product development, risk management, and marketing strategies. Unlike humans, machines are less prone to errors and delays, excluding technical glitches. One of the primary benefits of transacting with online banks is increased efficiency. By automating processes, digital financial institutions can reduce transaction times considerably while maintaining transparency. These entities also have built-in cyber security systems that detect and combat fraudulent transactions.
- **New Revenue Opportunities:** Digitalization opens doors for new financial products and services, such as micro-loans, crowdfunding platforms, and robo-advisors, expanding the revenue potential for financial institutions.
- **Financial stability:** By promoting cashless transactions and increasing financial inclusion, digitization can contribute to a more stable and resilient financial system.

***The Evolution of Digital Financial Service in Nigeria***

Until the early 2000s, financial institutions relied on manual processes and paperwork to facilitate local and international transactions, no matter how complex they may be. Nigerian banks had the same predicament but stood at the forefront when the opportunity for automation was raised.

ATMs were the earliest banking technology available, and Nigeria had its first machine in 1989. As of 2021, there were 16 ATMs for every 100,000 adults in the country, per the World Bank.

Banking on the success of remote banking machines, Nigeria introduced NIBSS Instant Payments (NIP), its real-time payments scheme, in July 2011. This technology played a significant role in Nigeria's digital banking sector by making mobile and internet banking possible.

The launch of new banknotes and the capped withdrawal of the new banknotes by the Central Bank of Nigeria (CBN) towards the end of the year 2022 further boosted the introduction and adoption of digital financial services in the country. The Central Bank set a deadline of 31 January 2023 for all old notes to be deposited in banks in exchange for new. This resulted in a currency crisis when all the old notes were out of circulation and the new notes were hardly circulating. The ensuing scarcity of cash made life unbearably hard for Nigerians.

As a fall out, most 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, which has increased to roughly 1.1 million as of April 2022 (CBN annual report 2020). Merchants and PoS operators handle the machines. The Central Bank regulates their operations.

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.

### *How big is Nigeria's Digital Banking Industry?*

A strong fintech sector translates to an active digital banking industry. According to the Financial Consultancy Group or Fincog and BPC Banking Technologies, 80% of the 21 digital banks in Africa were operating mainly in Nigeria and South Africa as of 2021. These institutions had 18 million users in the said period. In a recent report by PriceWaterhouse Coppers (PWC), fintech investments in the country were valued at over USD\$200 million from 2011 to 2018. A separate report from McKinsey showed USD\$460 million worth of investments in the sector in 2019.

According to a study by ACI Worldwide in collaboration with GlobalData and the Centre for Economics and Business Research (Cebr), digital payment services rose to USD\$3.2 billion in 2021, about 0.67% of Nigeria's gross domestic product (GDP). The study also showed that 64.7% of Nigerian consumers own and use a mobile wallet. By 2026, the country's transactions are projected to reach USD\$6 billion or over 1% of the national GDP. The figure places Nigeria as the fourth largest real-time payment market worldwide.

## CHALLENGES

The digitization of financial services, while offering a plethora of benefits, is not without its own set of challenges. Here are some key hurdles to consider:

- **Cybersecurity Threats: Data breaches and cyberattacks:** Digital systems are prime targets for hackers, potentially exposing sensitive financial data and personal information.
- **Financial fraud and scams:** New avenues for scamming emerge alongside digital innovations, leading to financial losses for individuals and institutions.
- **Erosion of trust:** Frequent cyber incidents can erode trust in digital financial services, hindering widespread adoption.
- **Digital Divide: Unequal access to technology and internet:** Lack of infrastructure and affordability limits access for certain populations, creating an uneven playing field.
- **Financial exclusion:** Those without access to digital tools and services risk being excluded from the financial system altogether, exacerbating existing inequalities.
- **Knowledge gap:** Digital literacy skills are key to effectively utilizing digital financial services, but not everyone possesses them, creating a barrier to entry.
- **Technological Challenges:** Rapid obsolescence as technology advances quickly, requiring constant updates and adaptation to avoid becoming obsolete and vulnerable.
- **Integration complexity:** Legacy systems often clash with new technologies, leading to complex and expensive integration processes.
- **Skill and talent gap:** The industry needs individuals with specialized skills in data analytics, cybersecurity, and emerging technologies, which can be scarce.
- **Social and Economic Concerns:**
  - **Job displacement:** Automation through digitization can lead to job losses in traditional banking roles, requiring reskilling and adaptation for displaced workers.
  - **Ethical implications:** Data collection and algorithms can raise concerns about privacy, discrimination, and algorithmic bias.

- Financial instability: Overreliance on interconnected digital systems can create vulnerabilities to systemic risks and potentially disrupt the financial system.

Addressing these challenges requires a multi-pronged approach through collaborative efforts from governments, financial institutions, technology providers, and individuals to navigate these challenges and unlock the full potential of digital financial services for a more inclusive and prosperous future. Some of these challenges are:

1. Investments in cybersecurity: Robust security measures, data encryption, and continuous vigilance are crucial.
2. Bridging the digital divide: Expanding internet access, providing subsidized devices, and offering digital literacy training are essential.
3. Promoting financial inclusion: Designing products and services accessible to all, regardless of technological proficiency, is key.
4. Embracing responsible innovation: Prioritizing data privacy, fair algorithms, and ethical business practices builds trust and ensures sustainability.
5. Supporting reskilling and upskilling: Training programs and job creation initiatives can help displaced workers transition to new roles in the digital financial landscape.

### ***The Future of Nigeria's Digital Financial Services***

Nigeria's digital banking sector is expected to experience sustained growth in the short to medium term as the government strengthens its drive to develop the country's technological infrastructure. The National Broadband Plan aims to increase national broadband access to 70% by 2025. As of September 2022, over 45% of the target has been achieved.

Digital banks will continue to use advanced technologies to meet customers' various needs. Most of Nigeria's leading banks have launched a fully automated branch and tapped artificial intelligence to process high-volume transactions.

Besides the expected increase in online payment transactions and digital loan activities, Nigerians can expect more innovative digital financial product offerings in 2023 and beyond. More importantly, fintech companies and digital banks will continue to improve their security measures, easing consumers' fears of fraud and cyber hacking.

### **CONCLUSION**

The digitization of financial services in Nigeria embodies a transformative transition with the potential to enhance convenience, security, and financial inclusion for individuals while enabling financial institutions to operate more efficiently and profitably. However, it is crucial to address the inherent challenges of this transition. By fostering collaboration among government entities, financial institutions, technology providers, and consumers, Nigeria can unlock the full potential of its digital financial services, paving the way for a more inclusive and prosperous economy.

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