

# State of play: Fintech in Nigeria



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## About this research

*State of play: Fintech in Nigeria* is an Economist Intelligence Unit report, sponsored by Mastercard and MTN Group. The report examines key trends in the fintech sector in Nigeria and assesses both industry drivers and impediments to further growth.

This report combines extensive desk research and insights from interviews. We conducted in-depth interviews with industry experts and executives at regulatory bodies and fintech firms. The interviews were conducted in January and February 2020. Our sincerest thanks go to the following participants (listed alphabetically) for their time and insights:

- **Emmanuel Agha**, CEO, Innovectives
- **Denis Barrier**, co-founder and CEO, Cathay Innovation
- **Olayinka David-West**, senior fellow, Lagos Business School
- **Khaled Ben Jilani**, senior partner, AfricInvest
- **Musa Jimoh**, director, payment system management, Central Bank of Nigeria
- **Babatunde Obrimah**, chief operating officer, Fintech Association of Nigeria
- **Kenechi Okeleke**, senior manager, GSMA Intelligence
- **Emmanuel Quartey**, head of growth, Paystack
- **Ham Serunjogi**, co-founder and CEO, Chipper Cash

Adam Green is the author of the report and Melanie Noronha is the editor.

## Executive summary

Nigeria, Africa's largest country by GDP and population, is among the continent's fintech leaders with a lively crop of start-ups and a growing suite of digital offerings from mainstream banks. Fintech revenues are forecast to reach an estimated US\$543m by 2022, driven by increasing smartphone penetration and its unbanked population.

What solutions are Nigerian fintech providers focusing on? How healthy is the broader ecosystem in terms of venture capital investment, skills and the regulatory environment? What are the key challenges and bottlenecks facing the country as its fintech sector matures? This report, based on desk research, data analysis and expert interviews, traces the evolution of fintech in Nigeria.

### Key findings of the report:

**Nigerian fintechs are branching out from payments into lending, micro-investment, wealth management, peer-to-peer transfers and insurance.** Payments and remittances are the most developed sub-sector to date. The country has seen a surge of new and simplified apps to help merchants, businesses and consumers. Mainstream banks, initially slow to react to the digital era, have quickly adapted to offer apps and tools in areas like loans, while non-traditional players—including telecom companies and retailers such as supermarkets—are entering the finance space.

**Nigeria's regulatory environment balances innovation and consumer protection but must continually evolve to respond to market dynamics.** The Central Bank of Nigeria has passed laws and regulations to promote digital payments and allow

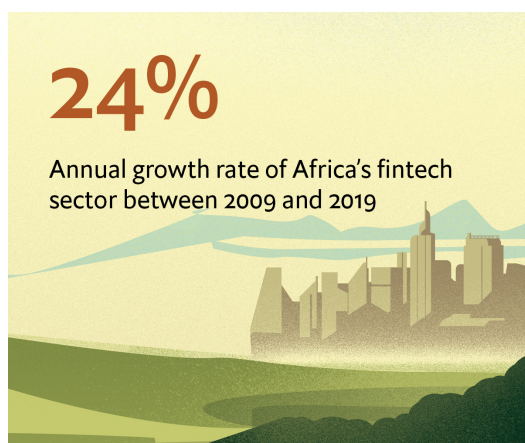
more actors to enter the space, boosting competitiveness and consumer choice. But it is balancing these with consumer protections through its cybersecurity framework and data protection regulation. Recent reforms, such as easing entry of start-ups into the capital markets and the creation of a fintech sandbox, could also lead to an enrichment of the ecosystem. While there is no fintech-specific law as yet, a sector roadmap provides overarching direction to the industry. A legal framework may prove necessary to manage the emergence of new types of fintech and accelerate fintech solutions for "insurtech" and wealth management.

**To develop and flourish, Nigerian fintech needs to address shortcomings in the broader ecosystem.** While venture capital investment is forthcoming, the majority comes from abroad with Nigerian investors currently playing a small role. As the sector matures, skills gaps are emerging outside of product development in areas such as business management and marketing. Given the challenges that fintechs in all markets are facing in terms of profitability, expertise in business management and corporate governance is needed. Some experts question whether fintech has truly moved the needle on financial inclusion, believing that it is easing financial transactions for those already in the system. But the jury is still out. Although a causal link with the rise of fintech is unclear, surveys conducted by Enhancing Financial Innovation and Access, a financial sector development organisation, reveal that the percentage of financially-excluded adults in Nigeria reduced from 41.6% in 2016 to 36.8% in 2018.

## Introduction: Fintech's surge

Globally, the fintech sector is among the most appealing for investors looking for the next wave of disruptive innovation. Digital “neo-banks” are expanding their market share, especially among younger consumers, while bespoke apps and platforms are taking once-elite financial services, such as stock market investing, into the mainstream. Total investment activity globally—combining venture capital, private equity and merger and acquisitions—reached a peak of US\$120bn in 2018, up from US\$51bn in 2017.<sup>1</sup>

Africa can lay claim to having laid the foundations of fintech with the mobile money revolution springing out of Kenya back in 2007. Today, it remains a front-runner in financial innovation: The number of fintech companies in Africa grew at an annual rate of 24% between 2009 and 2019, fuelled mostly by Nigeria, Kenya and South Africa.<sup>2</sup>



Ham Serunjogi, co-founder and CEO of Chipper Cash (which entered the Nigerian market in September 2019), describes the country as “one of the more mature fintech and tech markets in Africa. It has definitely been a pioneer and a leader on many fronts, with a lot of great companies. I’ve been impressed by how they’ve grown and the problems they’ve solved”. Fintech revenues are forecast to grow from US\$153m in 2017 to US\$543m by 2022, driven by expanding payment services, the e-commerce market and rising smartphone penetration.<sup>3</sup>

While unique subscriber penetration was at 50% in Nigeria at the end of 2019—less than peers like South Africa and Ghana—in absolute terms that still amounts to 100m unique subscribers. “That is South Africa, Kenya, Ghana and Cote d’Ivoire put together, which gives you an idea of the size of the market of mobile and the impact it could have

<sup>1</sup> “The Pulse of Fintech H1’19: Biannual global analysis of investment in fintech”, *KPMG*, July 31st 2019. <https://home.kpmg/au/en/home/campaigns/2019/07/pulse-of-fintech-h1-19-global-trends.html>

<sup>2</sup> “Africa’s fintech landscape has grown at an annual rate of approximately 24% over the last 10 years”, *EY*, January 17th 2019. [https://www.ey.com/en\\_za/news/2019/01/africa-fintech-landscape-has-grown-at-an-annual-rate-of-approximately-24-over-the-last-10-years](https://www.ey.com/en_za/news/2019/01/africa-fintech-landscape-has-grown-at-an-annual-rate-of-approximately-24-over-the-last-10-years)

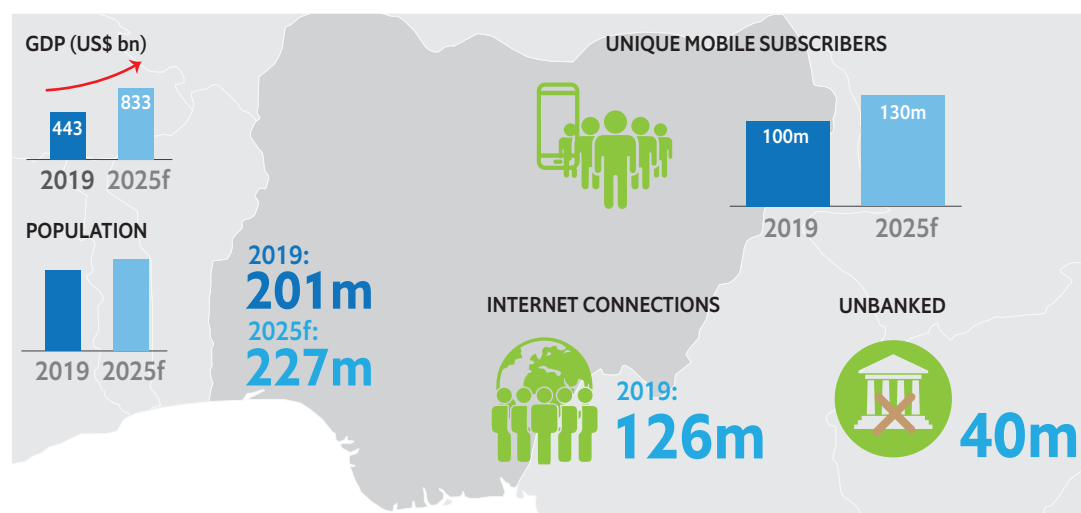
<sup>3</sup> “Digital Market Overview: Nigeria”, *Frost & Sullivan*, 2018. [https://www3.frost.com/files/9215/2871/4691/Digital\\_Market\\_Overview\\_FCO\\_Nigeria\\_25May18.pdf](https://www3.frost.com/files/9215/2871/4691/Digital_Market_Overview_FCO_Nigeria_25May18.pdf)

on growth of tech services,” says Kenechi Okeleke, senior manager at GSMA Intelligence, the mobile industry association. That number is forecast to rise to 130m by 2025.<sup>4</sup> Nigeria also has around 126m active internet connections according to the country’s Communications Commission.<sup>5</sup>

Importantly, discussions on fintech in Nigeria often centre on its potential to drive financial

inclusion. As of 2018, 37% of the adult population was unbanked according to a survey conducted by Enhancing Financial Innovation and Access (EFInA).<sup>6</sup> Insufficient bank branches and ATMs have impeded greater financial inclusion: for every 100,000 adults, Nigeria has 4.3 bank branches compared to 5 in Kenya, 8.6 in Ghana and 10.1 in South Africa.<sup>7</sup> Consumers also continue to face difficulties with securing a biometric bank verification number (required

**Figure 1: Key drivers for fintech in Nigeria**



Source: The Economist Intelligence Unit; EFInA; GSMA

since 2014 to open bank accounts and keep them active) and high service fees make financial services unaffordable. The unbanked in Nigeria could be an attractive pool of potential consumers for fintech firms who are able to effectively reach them.

### Fintech’s expanding use cases

**Payments and remittances** are the most developed sub-sector, with a surge of new and

simplified apps emerging. Start-up payment processing firm Interswitch pioneered the infrastructure to digitise the cash economy in the 2000s. Today, it provides much of the tech wiring for Nigeria’s online banking system as well as personal and business financial products. These include its Verve payment cards and the Quickteller app, which allows users to transfer money, pay bills and buy mobile and internet data. Flutterwave, the Nigerian-owned, San Francisco-

<sup>4</sup> “Spotlight on Nigeria: Delivering a digital future”, GSMA, 2018. <https://www.gsma.com/publicpolicy/wp-content/uploads/2019/02/GSMA-Spotlight-on-Nigeria-Report.pdf>

<sup>5</sup> “Industry Statistics”, Nigerian Communications Commission, 2020. <https://www.ncc.gov.ng/stakeholder/statistics-reports/industry-overview#view-graphs-tables-5>

<sup>6</sup> “Key Findings: EFInA Access to Financial Services in Nigeria 2018 Survey”, Enhancing Financial Innovation and Access, December 11th 2018. [https://www.efina.org.ng/wp-content/uploads/2019/01/A2F-2018-Key-Findings-11\\_01\\_19.pdf](https://www.efina.org.ng/wp-content/uploads/2019/01/A2F-2018-Key-Findings-11_01_19.pdf)

<sup>7</sup> “Data”, The World Bank, 2019. <https://data.worldbank.org/indicator/FB.CBK.BRCH.P5>

headquartered start-up, provides a payment tool for businesses. It focuses particularly on helping Africans build global businesses by accepting payments from anywhere in the world and recently raised US\$35m to expand across Africa.<sup>8</sup> Other companies, such as Chipper Cash, focus on personal cross-border payments, akin to Venmo, a digital wallet popular in the US.

Nigerian fintechs are expanding into lending. There has been a marked increase in **mobile lending** products targeting the small and medium-sized enterprise (SME) and retail sectors. These products allow users to apply for loans online (mostly without the need for collateral) and use advanced technologies such as machine learning for credit analysis.<sup>9</sup>

“There’s a new wave of start-ups in the lending space which are lending to both consumers and small businesses,” explains Khaled Ben Jilani, senior partner at private equity investor AfricInvest. “The payment services have built up data that allow these start-ups to develop models of creditworthiness, for either people or companies, in a continent where there is very little data about people’s credit ratings because they never had formal access to the financial sector.”

Another example is Lagos-headquartered Carbon (formerly Paylater), which offers access to credit, simple payments solutions, investment opportunities and tools for personal financial management. In 2019, its parent company OneFi became the first



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**There’s a new wave of start-ups in the lending space which are lending to both consumers and small businesses.**

*Khaled Ben Jilani, senior partner, AfricInvest*

<sup>8</sup> Ruth Olurounbi, “Nigeria Payment Firm Flutterwave Gets \$35 Million Funding”, *Bloomberg*, January 21st 2020. <https://www.bloomberg.com/news/articles/2020-01-21/nigeria-payment-firm-flutterwave-gets-35-million-funding>

<sup>9</sup> “Nigeria: Fintech 2019”, *ICLG*, May 10th 2019. <https://iclg.com/practice-areas/fintech-laws-and-regulations/nigeria>

African fintech company to secure a credit rating. A growing array of personal savings solutions are available on mobile phones from both fintechs and major banks.<sup>10</sup>

In response, mainstream banks are digitising their own offerings, collaborating with start-ups or developing their own solutions says Babatunde Obrimah, chief operating officer at Fintech Association of Nigeria. He highlights Lagos-headquartered Guaranty Trust Bank as a lead player. It has launched a data centre and is developing interactive and intelligent bots to deliver faster, more personalised services.<sup>11</sup> Other banks have invited fintechs to develop a variety of solutions. One example is First City Monument Bank, which put out a tender for payroll solutions. This led to the launch of a new platform in 2019.<sup>12, 13</sup>

Emmanuel Quartey, head of growth at Paystack, the Nigerian payments gateway, says mainstream banks have upped their pace over the past year especially. “When the first wave of digital lenders like Carbon launched, I don’t think banks were worried, but within

the past 12 months banks have launched competitors in the form of digital mobile apps. Examples include Quick Credit by Guaranty Trust Bank, Credit Direct by FCMB, and Specta by Sterling Bank.”

**Wealth management** platforms are another hot prospect. Brands like Cowrywise are bringing online investment products to Nigeria’s middle class. Others are offering **retail investors** the chance to earn profits from the country’s agricultural sector: Farmcrowdy lets investors back businesses, be it a ginger trader in Kaduna state or a poultry farm in Osun, and offers returns of up to 12% over six months.<sup>14</sup>

Digital insurance, or “**insur-tech**”, is also taking root.<sup>15</sup> Cassava Smartech offers auto, education and health coverage including funeral costs with prices as low as US\$0.50 a month. But insur-tech has moved faster in Ghana and Kenya than Nigeria, claims Mr Okeke of GSMA Intelligence. This is partly a reflection of cultural differences, he explains, as Nigerians often under-insure themselves.

**Figure 2: Fintech solutions**



Source: The Economist Intelligence Unit.

<sup>10</sup> “Nigeria’s OneFi secures first ever credit rating for an African Fintech”, *CNBC Africa*, January 8th 2019. <https://www.cnbcafrica.com/videos/2019/01/08/nigerias-onefi-secures-first-ever-credit-rating-for-an-african-fintech/>

<sup>11</sup> “Guaranty Trust Bank is harnessing technology to drive inclusivity”, *World Finance*, July 18th 2019. <https://www.worldfinance.com/banking/guaranty-trust-bank-harnessing-technology-to-drive-inclusivity>

<sup>12</sup> “Overview and Lessons Learnt from Global FinTech Landscape: Nigerian FinTech landscape”, *Enhancing Financial Innovation and Access*, December 2018. <https://www.efina.org.ng/wp-content/uploads/2019/04/EFInA-FinTech-Report-Global-and-Nigeria-Landscape.pdf>

<sup>13</sup> “FCMB launches payroll solution for SMEs”, *Financial Nigeria*, October 28th 2019. <http://www.financialnigeria.com/fcmb-launches-payroll-solution-for-smes-sustainable-photovideo-details-1186.html>

<sup>14</sup> <https://www.farmcrowdy.com/>

<sup>15</sup> Obasan Taiwo James-Yakub, “Everything you need to know about FinTech in Nigeria”, *Medium*, November 8th 2019. <https://medium.com/@Afroconomist/everything-you-need-to-know-about-fintech-in-nigeria-69164f66e992>



“Insurance has always been a small sector in financial services in Nigeria. Individuals tend not to do insurance. For big players, their main market has been the corporate sector.” The Nigerian non-life insurance market was estimated to be worth US\$0.8bn in 2016 compared with US\$1.1bn in Ethiopia, US\$1.2bn in Kenya and US\$8.1bn in South Africa.<sup>16</sup>

It is important to note that the evolution of Nigeria’s fintech sector has been guided by regulatory and policy developments. In the next chapter, we will explore how these changes have supported the early stages of fintech and how regulators are crafting appropriate regulation for the next wave of growth.

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<sup>16</sup> “Africa Insurance Barometer 2018: Market Survey”, *African Insurance Organisation*, 2018. [https://pulse.schanz-alms.com/files/media/files/aac2d1e0123a5b5f5df7008326f20a3a/Africa\\_Insurance\\_Barometer\\_WEB\\_E.pdf](https://pulse.schanz-alms.com/files/media/files/aac2d1e0123a5b5f5df7008326f20a3a/Africa_Insurance_Barometer_WEB_E.pdf)

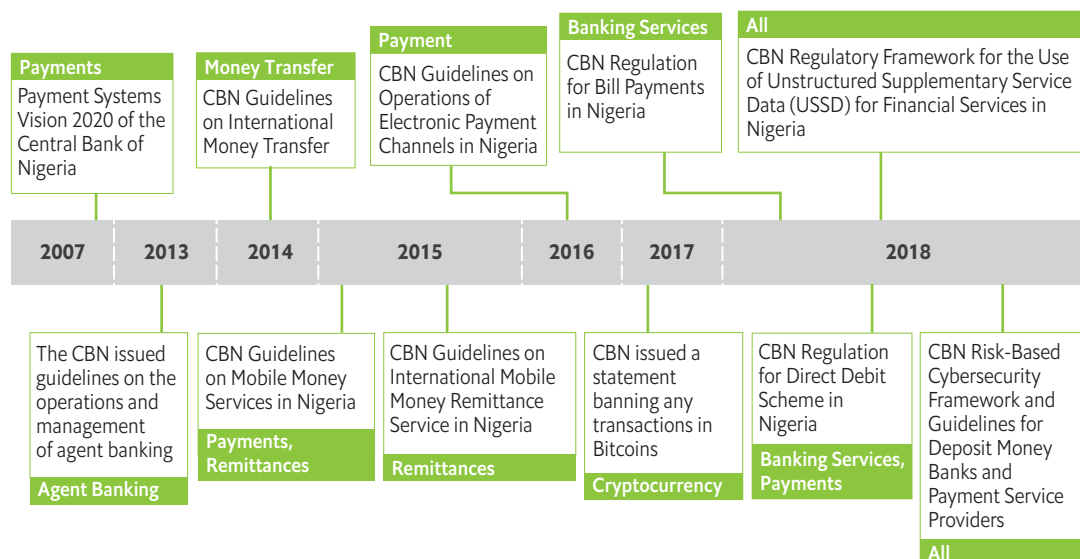
## Chapter 1: Unlocking Nigerian fintech

Regulators can make or break fintech, but balancing creativity with consumer protection is no mean feat. While enabling businesses to make e-payments and operate in a digital ecosystem, regulators must also protect consumers and businesses from financial crimes, including fraud and money laundering. The anonymity that certain fintech solutions (such as digital payments) allow run counter to regulators' priorities. "There's always a balance to strike and there will always be tension between those two things," says Mr Serunjogi of Chipper Cash. "But considering that Nigeria has many fintech companies, which are doing really well, that has to be the result of an environment that fosters it."

Although Nigeria lacks a single fintech law, it has a suite of regulations that cover relevant issues and provide entry points. The Payments System Vision 2020, launched by the Central Bank of Nigeria (CBN) in 2007, marked the beginning of this curve by recommending that electronic payments be boosted.<sup>17</sup> It was followed, according to one report, by a material increase in mobile and electronic payments.<sup>18</sup>

Crucially, the CBN sees fintechs as stakeholders in driving financial inclusion, says Musa Jimoh, CBN's director of payment system management. In 2012, it published the National Financial Inclusion Strategy, setting

**Figure 3: A suite of fintech regulations and policies in Nigeria**



Source: The Economist Intelligence Unit

<sup>17</sup> "Nigeria: Fintech 2019", ICLG, May 10th 2019. <https://iclg.com/practice-areas/fintech-laws-and-regulations/nigeria>

<sup>18</sup> "Nigeria: Fintech 2019", ICLG, May 10th 2019. <https://iclg.com/practice-areas/fintech-laws-and-regulations/nigeria>



the financial inclusion target to 80% by 2020 (revised in 2019 to 95% by 2024).<sup>19</sup> Since then, the CBN has taken several steps to boost the industry and encourage the shift to digital payments, including introducing charges on large cash-based transactions to reduce the amount of physical cash.<sup>20</sup>

To meet the more aggressive 2024 target, the CBN has recently reduced charges on a number of banking services. In addition, a recent step forward was the creation of licenses for bank and non-bank mobile operators to provide mobile payment services.<sup>21</sup> Eligible applicants for Payment Service Bank (PSB) licenses include banking agents, telecommunications companies, retail chains (like supermarkets), mobile

money operators, courier companies and postal service providers.<sup>22</sup> In September 2019 the CBN approved three PSB licenses in principle which allow entities to accept deposits, facilitate payments, handle the sale of foreign currencies from inbound cross-border personal remittances and operate an electronic wallet. Lending activities are not permitted under PSB licensing.

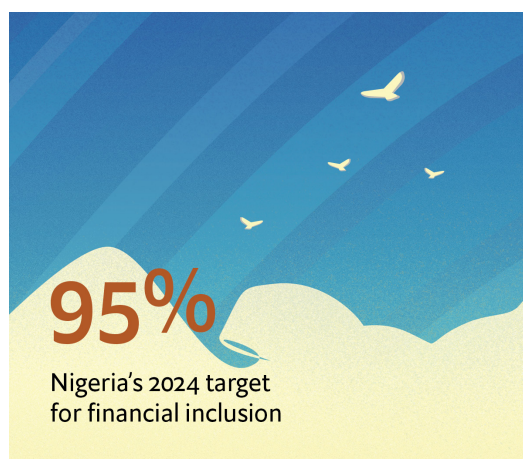
The numerous licenses related to payments and money transfers are also being consolidated under three Payment Service Providers (PSP) licenses: PSP Super License, PSP Standard License and PSP Basic License. Each offers different combinations of activities including transaction clearing, switching, mobile money operations and agent

<sup>19</sup> James Emejo, “Nigeria: Restoring Sanity to Bank Charges”, *This Day*, December 19th 2019. <https://www.thisdaylive.com/index.php/2019/12/29/restoring-sanity-to-bank-charges/>

<sup>20</sup> “Cash-less Nigeria”, *Central Bank of Nigeria*. <https://www.cbn.gov.ng/cashless/>

<sup>21</sup> “FinTech in Nigeria: Understanding the value proposition”, *KPMG*, November 2016. <https://assets.kpmg/content/dam/kpmg/ng/pdf/ng-fintech-in-nigeria-understanding-the-value-proposition.pdf>

<sup>22</sup> Bassey Udo, “Nigeria approves three new ‘Payment Service Banks’”, *Premium Times Nigeria*, September 18th 2019. <https://www.premiumtimesng.com/business/financial-inclusion/353094-nigeria-approves-three-new-payment-service-banks.html>



recruitment and management so that fintech firms do not have to secure multiple licenses for related activities.

Yet there are still some constraints. The raft of regulations that apply to various fintech solutions are often overseen by different authorities, including the CBN, the Securities and Exchange Commission (SEC) and the Nigeria Communications Commission. Fees to gain a financial services license remain high, says Mr Obrimah, with the minimum sum at N50m (US\$139,000): “Someone coming out of school, who is tech-savvy and develops a solution, where will they raise that?” Money-laundering rules may also be too onerous for smaller fintechs to comply with, according to Frost, a consultancy.<sup>23</sup>

A fintech-specific regulation may be in the offing. CBN officials have told local press they are developing a dedicated regulatory framework for the fintech sector and the Nigerian SEC launched a Fintech Roadmap Committee (FRC) to examine barriers to entry and regulatory hurdles, observing that “the

unclear regulatory environment for fintech in the Nigerian capital market” has inhibited the growth of the sector.<sup>24</sup>

The FRC’s 2019 report has already identified areas of concern, including weak cyber security. The digital nature of fintech itself exposes consumers to identity theft and fraudulent transactions through phishing emails and chatbot hijacking, among other methods. The CBN’s cybersecurity framework offers guidance to payment service providers and deposit money banks on cyber risk management procedures. These include designating a chief information security officer, identifying potential vulnerabilities and developing a strategy to tackle security breaches.

Fintech firms are also constrained by limited access to consumer data as a result of the Nigeria Data Protection Regulation of 2019. Although this is aimed at protecting consumers, the FRC recommends that regulators develop fintech-oriented data privacy policies, which could also prevent data provider monopolies.<sup>25</sup> The report also addresses the current ban on cryptocurrencies, recommending that they be classified as commodities or securities rather than currencies.

The fintech roadmap promises to address emerging issues like crowdfunding. “Lots of companies are collecting funds for projects in agriculture; you can invest in a hectare of maize or pineapple for instance and get a return on a quarterly or annual basis. But these are unlicensed activities currently,” says Mr Obrimah. In addition, the CBN’s proposed

<sup>23</sup> “Digital Market Overview: Nigeria”, *Frost & Sullivan*, 2018. [https://ww3.frost.com/files/9215/2871/4691/Digital\\_Market\\_Overview\\_FCO\\_Nigeria\\_25May18.pdf](https://ww3.frost.com/files/9215/2871/4691/Digital_Market_Overview_FCO_Nigeria_25May18.pdf)

<sup>24</sup> “CBN emphasizes Fintech regulation, tasks Fintechs on inclusion”, *Nairametrics*, October 30th 2019. <https://nairametrics.com/2019/10/30/cbn-emphasizes-fintech-regulation-tasks-fintechs-on-inclusion/>

<sup>25</sup> Olayanju Phillips, “Highlights of the Report on the Future of FinTech in Nigeria”, *S.P.A. Ajibade & Co.*, February 12th 2020. [http://www.spaaajibade.com/resources/highlights-of-the-report-on-the-future-of-fintech-in-nigeria-olayanju-phillips/#\\_ftn5](http://www.spaaajibade.com/resources/highlights-of-the-report-on-the-future-of-fintech-in-nigeria-olayanju-phillips/#_ftn5)

Electronic Transaction Bill seeks to promote e-commerce in Nigeria by eliminating legal barriers and harmonising legal rules on e-payments.<sup>26</sup> Digital banking licenses are also much sought after as more fintech firms seek to follow in the footsteps of Kuda, Nigeria's first digital-only bank.<sup>27</sup>

### Staying ahead of the curve

"In every market, innovation precedes regulation," states Emmanuel Agha, CEO of Innovectives, a licensed "super-agent" offering agent-banking and e-payment services through a network in Nigeria. "Our regulators should be forward-thinking in coming up with regulation that would [create] opportunities."

Where existing regulations do not apply to new fintech firms, regulators around the world are taking a proactive approach. Sandboxes, a controlled environment in which innovative fintech products are trialled under a regulator's supervision, have been one

successful approach among policy leaders including the UK, Singapore and Estonia.

In Nigeria, Financial Service Innovators launched the Financial Industrial Innovation Sandbox in December 2019, supported by N250m (US\$690,000) in multi-year grants from Flourish, a venture capital firm, and EFINA. Financial Service Innovators, chaired by Flutterwave co-founder Iyinoluwa Aboyeji, is a community of innovators backed by the Nigeria Inter-Bank Settlement System and the CBN. It aims to lower entry barriers into the fintech space with regard to regulation and licensing. "Promoting diversification, promoting innovation through fintech companies is very dear to us," says Mr Jimoh of the CBN. "That's why we're pushing regulation that will create an enabling environment for fintech in Nigeria."

The FRC recommends that all fintech start-ups should be encouraged to set up under this sandbox rather than having different sandboxes under individual regulators.



<sup>26</sup> "FinTech in Nigeria: Understanding the value proposition", KPMG, November 2016. <https://assets.kpmg/content/dam/kpmg/ng/pdf/ng-fintech-in-nigeria-understanding-the-value-proposition.pdf>

<sup>27</sup> "Nigerian FinTech Kuda Raises \$1.6M For Digital Banking Tech", PYMNTS, September 11th 2019. <https://www.pymnts.com/news/investment-tracker/2019/nigerian-fintech-kuda-funding-digital-banking/>

## Chapter 2: The fintech ecosystem

Regulators alone do not make a fintech ecosystem. Self-organising networks and organisations are also key to connecting talent and nurturing promising companies. Nigeria is home to tech incubators and accelerators, including the Co-Creation Hub and Passion Incubator. The Lagos State Government has made efforts to foster a community of tech start-ups in Yaba, while the Federal Government has promised to establish six innovation hubs across the country, including in Lagos and Abuja.

But while use cases are widening, investment is flowing and regulations are modernising, the Nigerian fintech ecosystem still faces many challenges on the road to maturity. Access to local capital is limited, digital infrastructure is weak and entrepreneurs' business management skills need to improve. In this chapter, we will assess the state of these central elements of Nigeria's fintech ecosystem.

### Investment capital

Encouragingly, Nigerian companies are proving a draw for investors, and particularly for venture capital (VC) firms. According to French VC fund Partech, Nigerian tech start-ups raised US\$306m over 26 deals in 2018, driven mostly by fintech.<sup>28</sup> WeeTracker, which produces an annual funding roundup, reports that Nigerian fintechs raised US\$679m in 2019 but this includes internationally-headquartered companies that have raised investment to operate in Nigeria.

**Figure 4: Select funding rounds for fintech firms in Nigeria (2018-2019)**

- **US\$10m** for Flutterwave, (payments platform)
- **US\$10m** for Paga (payments platform)
- **US\$8m** for Paystack (payments platform)
- **US\$6.9m** for Lidy (digital lending)
- **US\$5.5m** for TeamApt (digital banking and payments infrastructure)
- **US\$20m** for Migo (credit scoring service)
- **US\$8.4m** for Chipper Cash (cross-border money transfers)

Source: Partech; WeeTracker

The Cathay AfricInvest Innovation fund, launched last year, is the first pan-African VC fund with offices across nine countries. It aims to raise US\$170m and is the product of a partnership between AfricInvest, the biggest private equity company on the continent, and Cathay Innovation, a global VC fund focused on digital start-ups. While much of Africa's VC funding has traditionally come from regional African funds (or funds operating from hubs both within and outside Africa), its founders note that pan-African funds will help start-ups grow across borders.<sup>29</sup> Their interest lies in start-ups grown on the continent rather than those investing from outside. "In Nigeria, you need to have an understanding of the local market and the context, because the dos and don'ts are different. That's why we like to invest in Nigerian companies," explains AfricInvest's Mr Ben Jilani.

Yet while Nigeria is not short of deals and VC interest, much of the capital is coming from abroad. Mr Obrimah of the Fintech Association of Nigeria says that "99%" of investment is coming from outside of the country, mostly

<sup>28</sup> "2018 was a Monumental Year for African Tech Start-ups with US\$1.163B raised in equity!", *Partech*, March 22nd 2019. <https://partechpartners.com/news/2018-was-monumental-year-african-tech-start-ups-us1163b-raised-equity/>

<sup>29</sup> Denis Barrier, "Connecting African Entrepreneurs to the world with the first Pan-African Venture Capital Fund", *Medium*, April 9th 2019. <https://medium.com/cathay-innovation/today-we-are-extremely-excited-and-proud-to-announce-that-africinvest-and-cathay-innovation-are-456d96cc0254>

from the US and Asia. “The typical Nigerian investor wants a stable environment and a quick return. They don’t have the patience [for fintech].”

To boost SME access to capital the Nigerian stock exchange recently launched the Nigerian Growth Board.<sup>30</sup> This allows Nigerian start-ups with three years in business and turnovers of N50m or more to raise funds for expansion. “This is a good development that allows young companies to raise capital,” says Mr Obrimah. “Let’s see how the market reacts.”

### The skills conundrum

Within the skills ecosystem, Olayinka David-West from the Lagos Business School believes there are deficits in areas like business management, marketing and communications. Business expertise, rather than just technical coding knowledge, is crucial if fintechs are to generate the revenues they need to sustain themselves, particularly as they push towards zero-rated transactions costs and fees. “What will their income model look like vis-a-vis their costs, capital-raising, expenditure marketing and all of that?” asks Ms David-West.

According to Paystack’s Mr Quartey, marketing roles are some of the hardest to fill.

Within the skills ecosystem, Olayinka David-West from the Lagos Business School believes there are deficits in areas like business management, marketing and communications.



“Finding someone articulate who understands how to bring a product to market and create strong engagement and retention, is tough. Much of the current training out there is around teaching people how to code. We are now seeing a new wave of focus on product management. I think the next wave will be a focus on branding and marketing.” Over time, as start-ups scale up and seek more funding, corporate governance know-how will also become increasingly important.

In addition, Mr Quartey argues that fintech poses unique skills challenges compared to other tech domains. One example is compliance. “There are very strong compliance requirements you need to meet in order to run a fintech. If you are building a photo-sharing app it’s easier to have a team of mostly engineers. But in fintech, you need a team focused on compliance as well as fraud, so that’s something you have to build out too.”

Brain drain is a perennial challenge. EFINA, a Nigerian financial sector development organisation funded by the UK’s Department for International Development, notes that Nigeria is losing technical specialists to more developed markets, widening the skills gap. Ms David-West is concerned by the outflow of talent in Nigeria across the business landscape. “The pool of employable talent emigrating to places like Canada scares me. My question for corporate Nigeria is, what is our replacement strategy for these workers?”

She does see reason for hope in the Africa Continental Free Trade agreement, a new initiative covering an area from Morocco to South Africa which represents a market of 1.3bn people and GDP of US\$2.6trn. “Even if you don’t have local talent, we can now get pan-African talent moving across different markets,” she says.

<sup>30</sup> “NSE Growth Board”, *Nigerian Stock Exchange*, 2019. <http://www.nse.com.ng/issuers/listing-your-company/growth-board>

## Financial inclusion: The jury is still out

Ms David-West's broader concern, beyond skills, is whether fintech is solving the financial inclusion challenge facing Nigeria. To do this, fintech firms will need to reach people currently excluded from the financial system as a result of insufficient bank branches, high service fees, stringent identity verification and financial illiteracy.

Yet most fintech solutions are deployed on cellular phones or smartphones that require an internet connection. According to the World Bank, only about 10% of unbanked Nigerians have access to both a mobile phone and some sort of internet connection, whether through phone, PC or internet cafe.<sup>31</sup> Many fintech services are broadly inaccessible when only half the population has 3G coverage and only 20% of Nigerians own a smartphone.<sup>32</sup> The launch of affordable smartphones

manufactured and sold in Africa may help to address this issue.<sup>33</sup>

Meanwhile, it appears that fintech firms—including unconventional players such as telecom companies—are relying on a physical agent and merchant network for “the last mile”—to reach the unbanked in remote areas where it is too expensive for banks to set up branches. Through this network, they facilitate e-payments and banking services. Mr Agha, CEO of Innovectives, says that they have already created accounts for 750,000 people who were previously unbanked; their target over the next few years is to reach 3m more.

But even with a wide agent network, “you’re seeing that certain types of identification have been impeding more people from getting access to the bank account system,” explains Mr Agha, citing the need for a bank verification number to use most fintech services. “While we see growth in the volume of mobile transactions, these transactions are being conducted by those who already have existing banking relationships,” comments Ms David-West. “That really is a big challenge for the ecosystem in general. How do we bring more people into that pool? We need to be shooting for the mindset of inclusive fintech and creating new use cases.”

There is also a large gender gap slowing progress on financial inclusion. Just over a quarter of adult females have a bank account compared with more than half of males, according to the World Bank. The gender divide is also replicated in male-dominated fintech itself according to Deloitte.<sup>34</sup> However, a new generation of female leaders is rising up in Nigerian fintech—from Adia Sowho, vice president of growth at the credit start-up Migo to Cherry Eromosele, chief group marketing at Interswitch—and could help to close the gap.

Many fintech services are broadly inaccessible when only **half the population** has **3G coverage** and only **20% of nigerians** own a smartphone.



<sup>31</sup> “The Global Findex Database 2017”, World Bank, 2017. <https://globalfindex.worldbank.org/>

<sup>32</sup> “Nigeria: Digital Economy Diagnostic Report”, World Bank, 2019. <http://documents.worldbank.org/curated/en/387871574812599817/pdf/Nigeria-Digital-Economy-Diagnostic-Report.pdf>

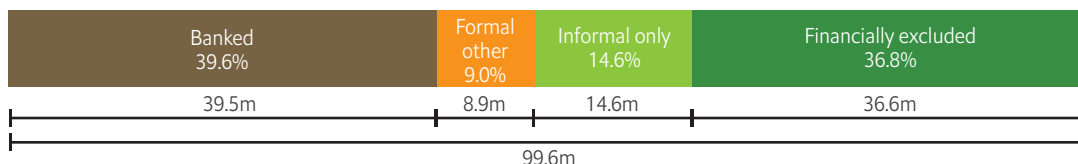
<sup>33</sup> Cheryl Kahla, “Mara Phone: A look at the proudly South African smartphone”, *The South African*, October 18th 2019. <https://www.thesouthafrican.com/tech/mobile/mara-proudly-south-african-smartphone-kzn/>

<sup>34</sup> <https://www2.deloitte.com/ng/en/pages/financial-services/articles/fintech-in-nigeria-and-the-women-who-lead.htmlpdf>

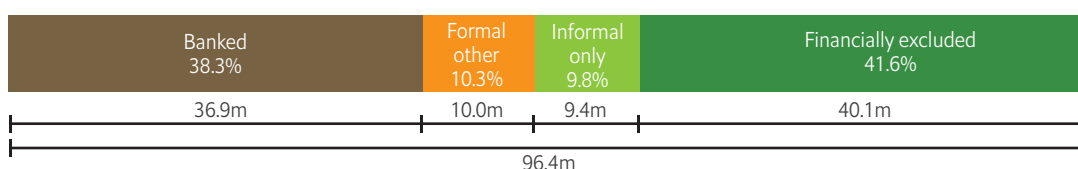


**Figure 5: Financial inclusion in Nigeria**

2018



2016



Source: EFINA surveys (2016 and 2018)

## Women and fintech

A rising gender gap in financial inclusion suggests that men are the main beneficiaries of financial innovations. While the share of Nigerians with a bank account has increased, the divide between adult men and women rose from 7% in 2011 to 24% in 2017.<sup>34</sup>

Fintech has the potential to redress that imbalance by tackling barriers faced by women. Some services will do so indirectly simply by bringing services to the unbanked, which includes over two thirds of Nigeria’s women.<sup>36</sup> A smaller group of fintech innovators is targeting women specifically.

One example is Access Bank’s Better Mama, Better Pikin (BMBP), a mobile wallet offering micro-savings and health and life insurance to pregnant women.<sup>37</sup> Users must deposit as little as US\$3 per month to gain medical insurance of up to about US\$125 a year.<sup>38</sup> Another is a mobile money partnership between Stellar, an NGO, and the fintech service provider Oradian, which allows rural women to transfer money to one another without carrying around cash.<sup>39</sup>

Information on women’s use of fintech services remains scant, however. Further monitoring of their uptake would help to inform policies and the design of products aimed at closing the gender divide.

<sup>35</sup> “The Global Findex Database 2017”, *The World Bank*, 2017. <https://globalfindex.worldbank.org/>

<sup>36</sup> “The Global Findex Database 2017”, *The World Bank*, 2017. <https://globalfindex.worldbank.org/>

<sup>37</sup> “Exploring fintech solutions for women: Scoping paper”, *Genesis Analytics*, 2018. <http://mujeresinnovadoras.com/wp-content/uploads/2018/09/Exploring-Fintech-Solutions-for-Women.pdf>

<sup>38</sup> “Exploring fintech solutions for women: Scoping paper”, *Genesis Analytics*, 2018. <http://mujeresinnovadoras.com/wp-content/uploads/2018/09/Exploring-Fintech-Solutions-for-Women.pdf>

<sup>39</sup> Gayle Tzemach Lemmon, “New Tools Increase Women’s Financial Inclusion in Nigeria”, *Council on Foreign Relations*, December 1st 2016. <https://www.cfr.org/blog/new-tools-increase-womens-financial-inclusion-nigeria>

## Conclusion: Betting on Nigerian fintech

Nigeria's massive population, entrepreneurial workforce and crop of successful fintech start-ups could well place it at the leading edge of Africa's financial innovation story. The venture community has validated the local talent pool and fintechs are proving that they are fit for market through year-on-year usage increases. Mainstream banks are also quickening their pace to fend off the threat of disruption by innovating their own products or partnering with start-ups and financial SMEs.

The regulatory environment, while not perfect, is well-regarded by companies and academic experts for its balancing of innovation with customer protection. Opening up licensing to new players, bringing down fees and charges and encouraging the business ecosystem by opening up access to capital markets are all signs of an accommodating legal environment that will increase competition. Ensuring that regulation keeps up with innovation by using sandboxes can support the next wave of fintech growth in Nigeria. But regulators must balance this with fighting financial crime (including money laundering and fraud) and ensuring data privacy and cybersecurity. A dedicated fintech law might add more specific rules in exciting but currently unregulated areas like crowd-investing, insurtech and wealth management.

The challenges facing Nigerian fintechs are in some respects common to those in other

parts of the world. The path to profitability is often unclear among firms whose focus is on product excellence and rapidly expanding market share. Neo-banks in other markets, like Revolut (UK) and N26 (Germany), are yet to articulate a clear profit-model and their digital innovations could be easy for mainstream banks to copy in time.<sup>40</sup> As the ecosystem matures, skills gaps are emerging outside of programming and product development in areas like marketing, communications and business management. Corporate governance will need to be strengthened as start-ups scale up to compete for funding.

Lastly, it is still not clear if Nigerian fintech has moved the needle significantly on financial inclusion given its tendency to deepen engagement among those who are already banked. Efforts to improve financial literacy among consumers and SMEs will be essential to achieve greater inclusivity across the continent.

Yet these challenges can be overcome: a pan-African free trade agreement could improve talent mobility and regulatory alignment; innovation sandboxes will further refine the regulatory framework; and domestic success stories will only inspire new waves of fintech. In the end, fintechs themselves are betting on Nigeria's business dynamism and the energy of its entrepreneurs.

<sup>40</sup> John Detrixhe, "Digital banks are racking up users, but will they ever make money?", *Quartz*, August 1st 2019. <https://qz.com/1679197/when-will-digital-banks-like-n26-and-revolut-start-making-money/>

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