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Scoping Study on Payment Systems in Nigeria:

Demand Side Key Findings

August 2010

Introduction

❑ The Nigerian retail payments market has been evolving in line with the global payments evolution

❑ Retail payments and instruments are significant contributors to the broader effectiveness and stability of the financial system

❑ Innovation in technology and business models have implications for the efficiency and safety of retail payments. New technology and new participants in the retail payments markets, for example non-bank providers will support the wider financial inclusion agenda

❑ The focus of the study was retail payment instruments

❑ The report covers both formal and informal payments:
  - Formal payments - the payment is registered and goes via the national clearing and settlement system, such as card-based transactions, cheques, online payments, etc.
  - Informal payments - the payment is unregistered and remains outside the clearing system e.g. cash, trade by barter, etc.

Objectives of the Demand Side Study

❑ The objectives of the study were to identify from a consumer perspective:

- Which payments services they currently use, both in terms of sending and receiving
- The usage of formal vs. informal methods of payment
- The reasons for using these types of payments services
- What knowledge and opinion they had of alternative payment types

Project Methodology

❑ Focus Group Discussions (FGDs) were conducted nationwide in Nov-Dec 2009

25 FGDs were conducted by Research International, the group structure was as follows:

- Twenty five groups of 10 people each
- A focus on rural communities (17 of the 25 groups)
- Six geo-political zones
- Approximately equal representation of men and women
- A range of ages (from 18 to 55 years)
- Socioeconomic Class (SEC) – C2DE (see Appendix 1 for the definition of SEC)

EFInA Project Methodology – FGD Locations

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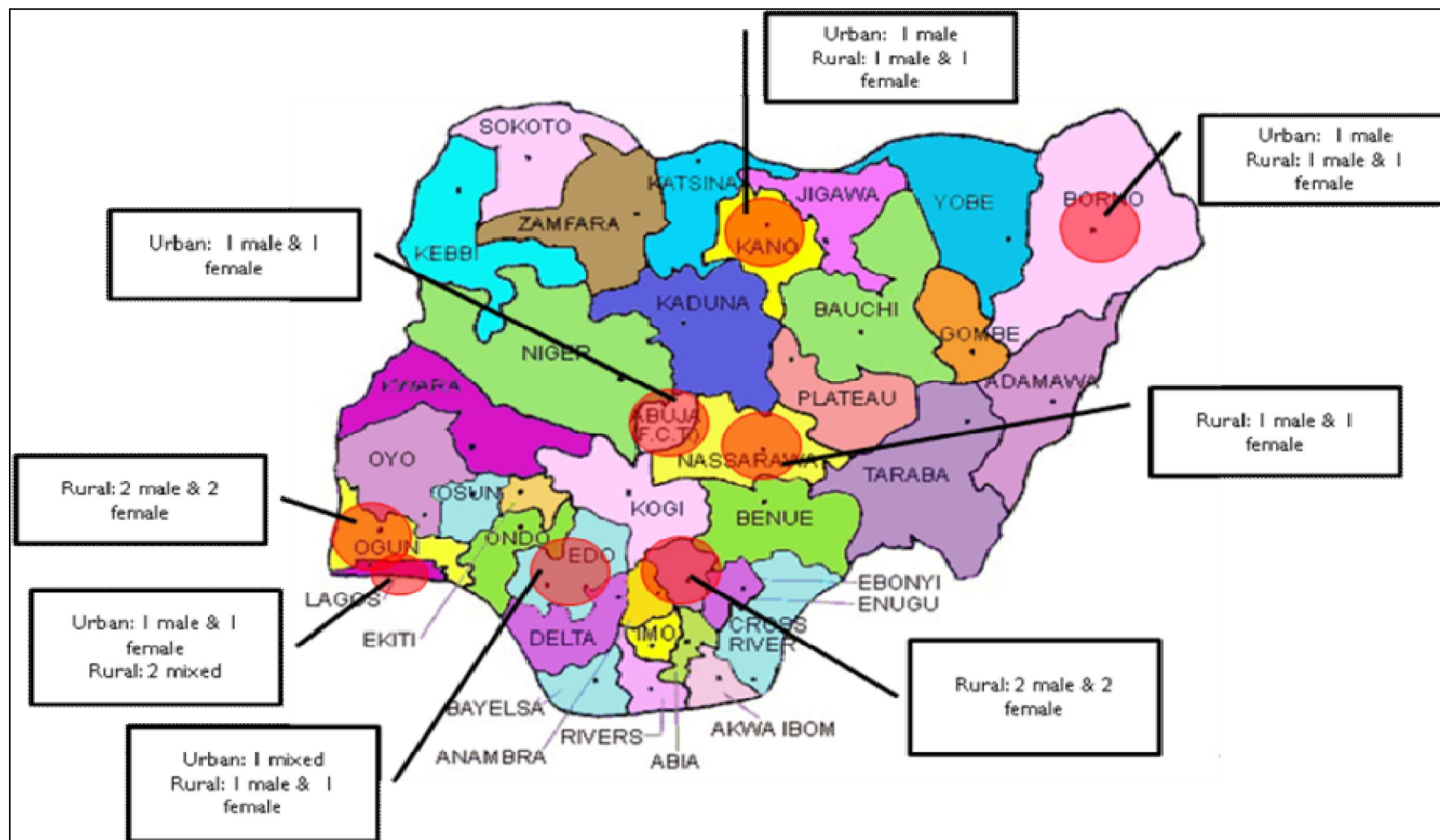
FOCUS GROUP DISCUSSION FINDINGS

Factors Considered Before Choosing Mode of Payment (Formal)

For respondents that make use of some form of financial/formal services such as bank transfers, etc the under listed factors are considered

RELIABILITY	Reliability is linked with time, as some claim to have had negative experiences linked with technical hiccups/network issues. Hence money sent is not delivered/received when required
TRANSACTION AMOUNT	The amount transacted usually determines the mode used as large sums of money would rather be sent/received through a trust worthy/reliable source while smaller amounts can be risked through any means
SECURITY	Most respondents want to be assured of the safety of what is been sent/to be received
EASE OF USAGE	Considering respondents level of education/literacy and the fear of being "looked down upon", majority prefer a mode of payment that is friendly and limited processes or paper work
TRANSACTION FEES	Fees are a major consideration for consumers as they are aware of other payment systems that will cost them little or nothing. However, for the minority who see the bank as a convenient, fast and secure means of making payments, the charges/rates are sometimes overlooked when it involves large sums or requires fast delivery

Key Factors Considered Before Choosing Mode of Payment (Informal)

The key factors taken into consideration by a large majority of respondents that use informal payment systems include

TRUST	Respondents need to be assured that amount sent gets to the recipient without any deductions or delays
CONVENIENCE	Especially in the rural areas, respondents do not want to travel long distances to make or receive payments as this impacts on their time and is costly, hence they use informal methods as they consider them to be more convenient
DELIVERY TIME/ SPEED	Speed is crucial because payment has to get to the recipient when needed

Cash is King

❑ The most popular/frequently used mode of payments by both the urbanites and rural dwellers in all the locations is **CASH** (direct, through friends, relatives, bus drivers/conductors, etc)

❑ Cash is considered *fast, easy, convenient, and direct* though with some short falls which is mainly associated with the "carrier" (issue of trust) and safety of transporting large sums of money

❑ The average amount of transactions carried out with cash on a daily basis varies between N50 – N500 for respondents in the rural areas and between N100 – N2,000 for those in urban locations

Awareness of Payment Systems

For the respondents, cash accounts for over 90% of payments made/received in both the rural and urban areas

Across both urban and rural locations, there was relatively high awareness of different payment systems. These include:

Formal	Informal
- Cheques - Card payments - ATM cards - Bank transfers - Money Transfers - Western Union - Moneygram - Flash-me-cash - EFT (Electronic Funds Transfer) payments (salary payments direct into accounts)	- Cash-direct or through middlemen - Trade by barter - Money Transfer - Airtime/ recharge card transfer - Bureau de change - Airport services

The awareness and use of the Point of Sales (POS) machines is very limited in both the rural and urban areas

Perceptions of Different Payment Systems

Payment System	Advantages	Disadvantages
Cash	• Acceptable everywhere • Easy • Fast • Direct • Convenient • Immediate • Stress free – no processes involved • Time saving • No charges involved	• Cumbersome – large sums/coins • Insecure – high value transactions • High risk – fear of theft and loss • No proof of payment/can't be accounted for • Fake money resulting in some loss • Takes time to count – coins, low value denominations • Lack of personal control/spending • Defacement • Majority complained that they don't get their exact change when things are bought
Cheques	• Convenient – easy to carry around • Safe/secure • Some level of peace – use of post dated cheque to offset debt	• Rejection - fake/bounced cheques • Demand for specific ID cards that are not universal – drivers license, international passport, national ID card • Delays – long clearing days/processing time • Charges • Insufficient bank networks in small towns and villages

Perceptions of Different Payment Systems

Payment System	Advantages	Disadvantages
Card Payment- ATM cards	• Fast • Convenient – urbanites • Accessible – 24 hours a day, 7 days a week, 365 days a year • Easy to use (some urbanites) • Inter bank usage – card from one bank can be used on another's ATM machine • Receipt of clean Naira notes	• Fraud - very easy to hack • Limited geographic spread of financial institutions in small towns and villages • Increasing number of scammers (phishing) • Network fluctuations • Lack of adequate cash especially over the weekend • Card jam/retention issues • Lack of control/personal spending • Loss of money/robbery after usage of ATM • Lack of adequate security around the machines • Inter bank charges – N100
Card Payment- POS	• Convenient – non cash payment • Easy to use (some urban locations) • Safe/secure for items worth large amounts	• Can't be used for payments that involve small amounts • Charges involved • Susceptible to fraud like ATM machines
Bank Transfer/ E-payments	• Safe/secure • Convenient • Fast • Reliable • Accessible	• Low awareness (rural) • Delay as a result of network issues • Payment is not reflected immediately • Human error – money can be sent to a different account

Perceptions of Different Payment Systems

Payment System	Advantages	Disadvantages
Money Transfer- Western Union, Moneygram	• Fast • Safe/secure • Direct • Convenient – urbanites • Receiver does not pay charges • Reliable	• Demand for specific ID cards that are not universally available - driver's license, international passport • Payment in local currency – Western Union • Low presence of banks in rural areas – need to travel to neighbouring villages/towns • Delays as a result of network fluctuations and processes involved
Bureau de Change (Money Transfer Service)	• Receiver does not pay charges • Exact amount is received • Convenient • No undue processes • Payment is mostly made in foreign currency • Reliable	• No major disadvantages mentioned
Airtime Transfer	• Fast • Direct • Reliable in the absence of network failure • Saves time • Easy to send/receive • Readily available	• Sometimes unreliable network • Face value/worth is not received • Difficulty in getting buyers that would buy at a reasonable cost • Susceptible to loss – fraudulent person can use PIN before receiver does • Sending voucher number to a wrong number

Perceptions of Different Payment Systems

Payment System	Advantages	Disadvantages
Bus network	• More reliable when compared with other informal payment systems • Parcels are registered and can be traced if lost • Some refunds can be made in the case of loss • Convenient • Limited processes	• Charges • Risky – road accidents, robbery • Loss of parcel – accidents
Trade-by-Barter	• Easy • Convenient	• Item exchanged might not be equal to amount required

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Remittances

Findings from the study showed that both the rural and urban respondents send and receive payments from friends, family, business partners etc. from within and outside Nigeria.

International	Domestic

• Key remittance corridors: USA, Austria, Germany, Italy, Spain, UK, China, Japan
 	
• Respondents in Edo (urban and rural) claim to receive money more from relatives/family members resident outside the country - especially from Italy and Spain
	• For the urbanites that have relatives in the rural areas, money is typically sent through informal means *(cash through friends, relatives, bus drivers and conductors)* for their upkeep
	
	• Frequency is not consistent:
	  – Once in a month (salary earners)
	  – Once in 2 weeks (wage earners/business men/women, traders)
	  – Periodic (wage earners/business men/women, traders)

❑ Rural dwellers are primarily recipients of domestic remittances. Payment is received mostly via cash through friends/bus drivers/conductor, airtime transfer, trade by barter, bank transfer (a few)

❑ Most payments made in the rural areas are for basic needs (mostly feeding)

Key Factors For Increasing Usage of Formal Payment Systems

❑ Across all regions, one form of payment or the other is made on a daily basis

❑ Incentives to increase the use of formal/non-cash payment systems include:
  – Easy to use/seamless processes
  – Low charges
  – Convenient/accessible
  – Reliable
  – Efficient
  – Secure
  – Trustworthy

Awareness and Usage of Formal Financial Services Providers

Banks

❑ High awareness of different banks across all locations but presence is low/non existent in some of the rural areas where the study was conducted

❑ Most respondents have a good perception of banks as being secure, but usage is low especially in the rural areas

❑ Findings also revealed that more males own accounts or have dealings with the bank than the females

❑ Findings reiterate results from the EFInA Access to Financial services in Nigeria 2008 survey where very few respondents in the rural own accounts due to the following reasons:

- Low presence of banks in these areas
- Lack of adequate funds to deposit in the banks
- Processes involved – perceived to be cumbersome
- Cost of transportation to the neighboring towns/villages
- Lack of trust in the banking system and this is tied to the liquidation of banks in the past
- Lack of acceptable forms of identification required to open an account

❑ In all urban locations, majority have savings account while a small number of business men/women & traders have both savings and current accounts to pay/receive cheques

❑ Factors to Increase Usage of Banks:

- Presence of banks within walking distance
- Easy and friendly processes
- Low charges
- Branchless banking - bringing the banking services to them

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Awareness and Usage of Formal Financial Services Providers

Microfinance Banks

❑ Relatively high awareness in urban areas, very low awareness in rural areas

❑ Respondents in rural parts of Ogun, Borno, Kano and Nassarawa States had no knowledge of Microfinance Banks and their operations

❑ Even in urban areas, interest and usage is low due to the perception of Microfinance Banks as being:

- Unreliable
- Unstable/lack sufficient capital
- Not customer focused
- For wealthy traders

Awareness and Usage of Formal Financial Services Providers

Non-Bank Networks: Nigerian Postal Service

❑ In Nigeria, the postal service is described by respondents as follows:

- Unreliable
- Slow
- Redundant
- Inefficient
- Lacks security

❑ In most rural locations where the study was conducted, respondents claimed there is no post office within their environs

❑ Despite the fact that the post office is supposed to have a wide geographic spread it is not perceived as a suitable location for payment services due to unreliability and issues with trust – which are key factors respondents consider before deciding on what form of payment service to use

❑ Respondents would rather use transport companies (bus networks) engaged in registered courier services even though they are riskier, as they are considered to be more reliable

In Brazil, the postal services is an integral part of the formal banking system due to its wide coverage

The Mobile Phone as a Payment System Channel

Mobile Phone Usage Patterns

❑ Usage of mobile phone is high among respondents in all locations as majority either own their phones or have access to it through "pay phone" operators/business centres

❑ Mobile phones are seen as a quick, direct and convenient way of communication

❑ Respondents in the urban areas especially the males are more conversant with the features on the mobile phone and its usage – making/receiving calls, text messages, browsing, games, calculator, video recording, taking pictures, alarm, transferring airtime, etc. While most females in both rural and urban locations use their phone mainly to make/receive calls with some degree of text messaging and airtime transfer

❑ Mobile/SMS Banking Awareness: very few male respondents in Lagos, Abuja and Edo urban were aware of being able to check their account balances using their mobile phones (JAVA enabled only) or receiving alerts after every transaction

Perceptions of Mobile Payment Services

Potential Usage

❑ Respondents would consider using mobile payment services to make payments as long as they have money on the phone and the charges are reasonable

❑ Some respondents stated that they would not keep a lot of money on the phone for security reasons, hence mobile payments services would likely be used to send/receive payments for low sums of money

❑ Majority are not too sure about saving using a mobile phone, especially those in the rural areas that tend to have a poor savings culture

❑ However some who engage in "ajo" (traditional savings) claim they might be motivated to save on their mobile phones if it will operate like their "ajo" i.e. provide considerable amount of money when needed without any extra charges

Perceptions of Mobile Payment Services

Positives

- ❑ Safe
- ❑ Secure
- ❑ Fast
- ❑ Direct
- ❑ Convenient/Stress free
- ❑ Reliable
- ❑ User-Friendly/Easy (for those who can send and read text messages)
- ❑ Some urban respondents think that it is targeted at people at the grassroots/villages where the absence of banks and the challenges posed by their low literacy level prevents them from using more formal payment systems
- ❑ Provide urban settlers with a convenient and easier option for sending money to family and friends in rural areas who are not literate or do not have easy access to banks

Concerns

- ❑ **Network Reliability**
  - • Instability of mobile networks which is prevalent across all operators would pose a problem/serve as a barrier to usage especially when money sent is not received when needed - which is crucial

- ❑ **Fraud**
  - • Prevalent fraudulent acts among ATM scammers is likely to occur on the mobile channel

- ❑ **Security**
  - • Concerns were also raised about trust in the Agents providing cash-in & cash-out services, this could be risky for customers and the agents if there is no form of security

- ❑ **Charges: How will charges be determined?**

  Thoughts on charges were as follows:
  - • Location: charges should be based on distance to the sender
  - • Amount: the larger the amount, the higher the charge
  - • Monthly charges/ access fees

- ❑ **System Stability**
  - • Fear of the unknown - the current banking crisis (both commercial and microfinance banks) have not helped in allaying the public's fear

Perceptions of Mobile Payment Services

Concerns

❑ **Literacy Issues**
- Not all respondents were literate, while some of them do not know how to send or read text messages
- Solutions cited included:
  - *Ask an educated neighbour/relative or child to help read/send text*
  - *Go to the agent for assistance*

❑ **Network Operator Provider**
- Most respondents were curious to know if this will be done by an existing or a new GSM service provider
- Respondents were concerned about usage in rural areas, especially where there is currently no network coverage

❑ **Other Concerns**
- Loss of the phone and what happens to funds on the phone
- Power supply especially for rural dwellers as the phone cannot be charged
- Agents working hours:
  - Respondents expect opening hours to be from 7am to 7pm daily

Conclusions

❑ Findings revealed that trust, reliability and efficiency are key choice drivers for both formal or informal payments in Nigeria

❑ The migration of our payments system towards a near cashless society would require some reform and a lot of effort and sensitization especially for low income customers, who are currently deeply rooted in using cash and see it as a convenient and easy way of receiving and making payments

❑ The sensitization exercise would require the combined effort of various stakeholders, including government, financial institutions and non bank providers of payment services

❑ The mobile payments services idea was well received by the majority, but with some concerns/challenges (as identified above) which can hamper its success and must be addressed by providers

❑ Hence before any form of formal payment system can be widely accepted and used, consumers must trust and have full confidence in the system, which entails:

- Clear and practical communication
- High level of security in the system – difficult for scammers/fraudsters
- Simple and easy processes especially for low income customers
- Accessible for all
- Minimal charges

APPENDIX 1

Socioeconomic Class (SEC) Definition

EFInA
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	C2 Lower Middle Class	D Lower Class	E Lower Class
% of total population	30%	20%	20%
Level of education	Secondary school or apprenticeship certificate	Completed elementary/secondary education	Mostly illiterate
Environment	High density	High density	High density
Building structure	Mini-flat, living room with moderately furnished sitting room	Room & parlour or single room	All members of household live in a single room
Occupation	Mostly skilled manual workers	Retired pensioner, semi-un-skilled manual workers, apprentice art workers	Unemployed, dependent, un-skilled manual worker
Annual income	Less than N500,000	Less than N100,000	Less than N60,000
Major household appliances owned	TV, Radio, Fridge, may or may not own a car	TV, Radio and Fan. Covered chairs and centre tables. Usually no car	Almost nothing