

# High cost of financial services

A barrier to formal financial inclusion in Nigeria

## What has happened?

### ■ Enactment of the Cybercrimes (Amendment) Act 2024

Following the President's assent to the Cybercrimes Act, the Office of the National Security Advisor planned to operationalise the **National Cyber-security Fund**, through the imposition of a levy. The Act empowers the imposition of **"A levy of 0.5% (0.005) equivalent to half percent of all electronic transactions value by business specified in the Second Schedule to this Act be paid into the Cybersecurity Fund."**

The National Security Adviser - Malam Nuhu Ribadu noted the urgency to operationalise the fund in order to secure Nigeria's Critical National Information Infrastructure (CNII), counter terrorism and violent extremism, strengthen national security and protect economic interests.

**0.5%**  
LEVY ON ALL  
ELECTRONIC  
TRANSACTION



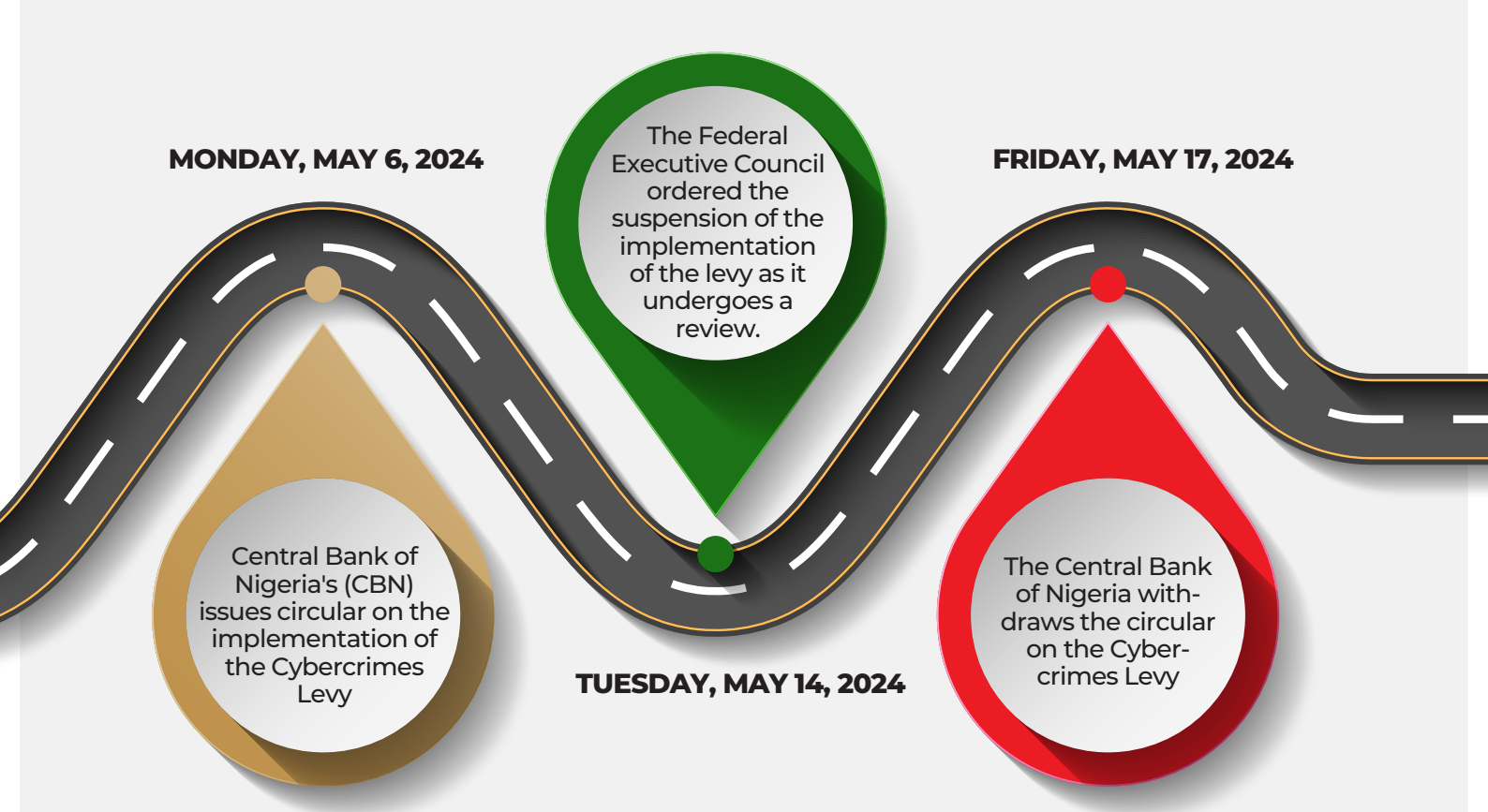
### ■ Central Bank of Nigeria (CBN) issues circular on the implementation of the Cybercrimes Levy

On Monday, May 6, 2024 – the CBN issued a circular directing all regulated financial institutions (Banks, Other financial Institutions and Payment Service Providers) **to implement a levy of 0.5% (0.005) equivalent to a half percent on all electronic transfers at the point of origination, deducted from the customer's account with the narration "Cybersecurity Levy" and then remitted by the financial institution.**



The CBN provided guidance on the application of the levy, stating that it is applicable to electronic transfers conducted between different customers in different banks – i.e. It is not applicable to intra-bank transfers between different or same customers or inter-bank transfers for the same customer. To avoid multiple applications of the levy, the apex bank provided a list of transaction types that must be exempt from the levy, such as salary payments, loan disbursements and repayments, and inter-bank bank placements.

Following the issuance of the circular, the market has sought clarity as to the applicability of the levy to individual consumers as opposed to the 'businesses' referenced in the Cyber-crime Act, with stakeholders suggesting that the wording of the CBN's directive creates ambiguity and concern that the levy would be applied to all consumer transactions.

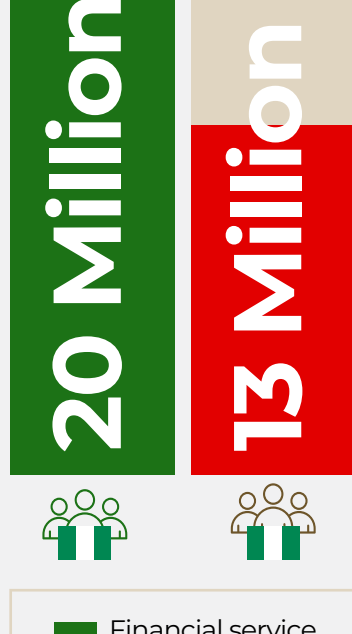


## Why is this important for financial inclusion?

The **2023 Access to Financial Services in Nigeria Survey (A2F)** by **EFInA (Enhancing Financial Innovation & Access)** clearly highlights the level of price sensitivity of Nigerian consumers when using formal financial services. The imposition of additional costs on businesses and service providers will put further pressure on the operating costs of payment service providers and other participants in the financial services ecosystem - further inflating an already high cost environment. The cost of these levies is likely to be passed on to the consumer through a range of channels as a result of potential increases to the cost of telecoms and financial services.

Over 20 million Nigerian financial service consumers, including more than 13 million who are already formally served, are anticipated to feel the impact of any price increase in accessing formal financial services primarily due to their sensitivity to transaction and infrastructure costs. The sensitivity to an increase in transaction pricing could deter or disincentivize these individuals from utilizing formal financial services.

### ■ Population Sensitivity to Financial Transaction Cost

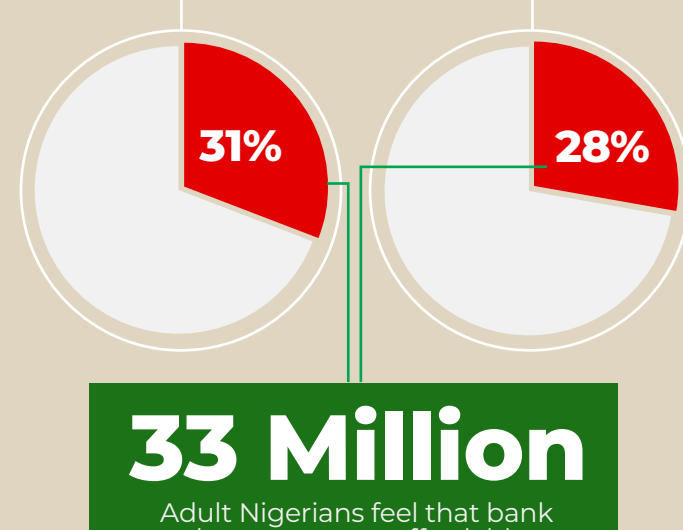


Financial service consumers

Formally served

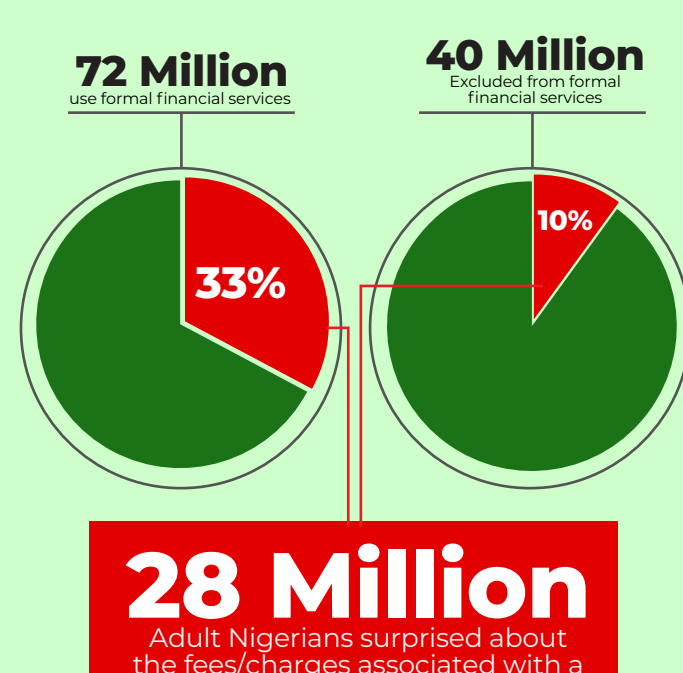
## What is the data saying?

According to analysis of our A2F 2023 survey data



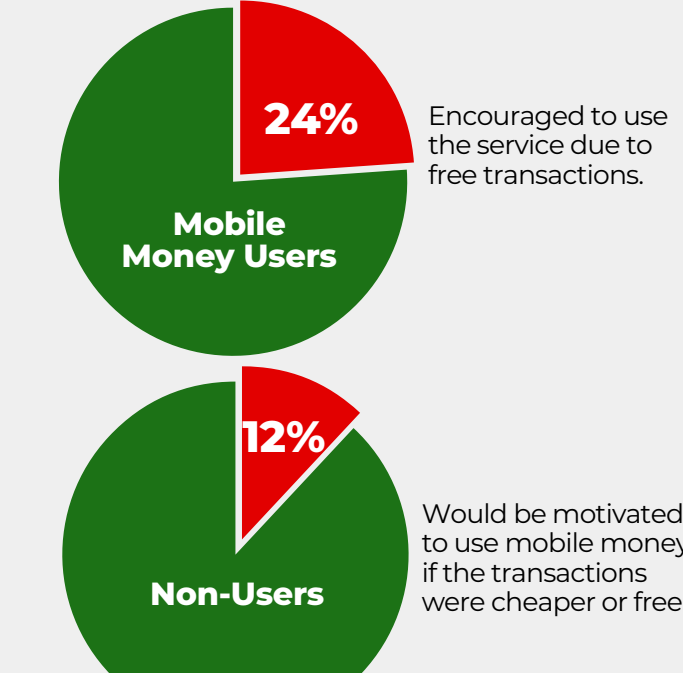
### Consumers are sensitive to pricing when it comes to using formal financial services

33 million (30%) adult Nigerians, which comprises 31% of formal financial service users and 28% of those excluded from formal financial services, feel that bank charges are not affordable. This suggests that a significant portion of the population, particularly the poor and financially underserved, are already struggling with the cost of financial services. This runs counter to the objective of financial inclusion, which aims to provide affordable and accessible financial products and services to all Nigerians, regardless of their socio-economic status.



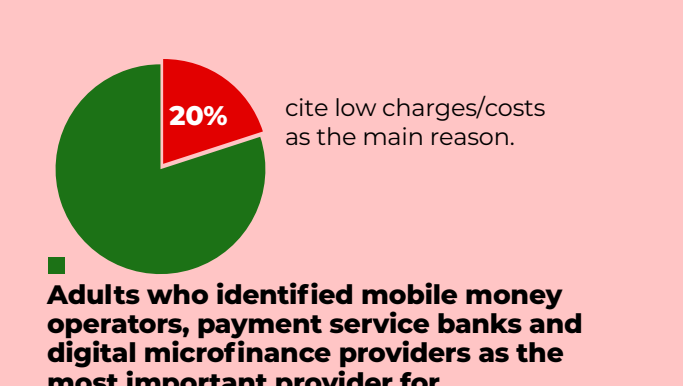
### Financial service fees are usually not transparently disclosed

28 million (25%) adult Nigerians, which comprises 33% of formal financial service users and 10% of those not formally served, reported to have taken a financial product/service and were later surprised about the fees/charges associated with that product. This highlights a lack of transparency in the fee structures or disclosure practices of formal financial service providers. Customers may feel deceived or misled when unexpected fees arise, eroding trust in the institution and the broader financial system. Only 30% of adult Nigerians who use formal financial services have been informed of changes to fees or charges on financial products/services. Without adequate information about changes in fees or charges, consumers may face unexpected financial burdens, leading to dissatisfaction and potential disengagement from formal financial services.

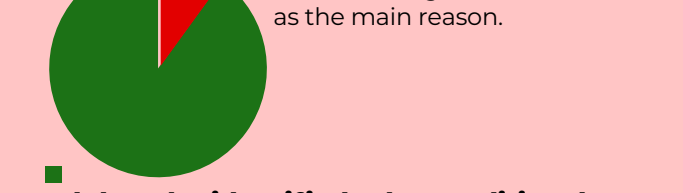


### Free or low-cost transactions encourage adoption and usage of DFS

24% of mobile money users were encouraged to use the service due to free transactions. In comparison, 12% of non-users would be motivated to use mobile money if the transactions were cheaper or free. This highlights the role of cost as a key driver for the adoption of digital financial services in Nigeria. As such, the introduction of the cybercrime levy on digital financial transactions is likely to undermine the affordability and consequently the adoption of these services, particularly for the unbanked and underserved populations. The wider impact is a potential erosion of the gains recorded in financial inclusion through DFS, and inadvertently stalling the country's progress towards a more inclusive financial ecosystem.



### ■ Adults who identified mobile money operators, payment service banks and digital microfinance providers as the most important provider for managing their finances



### ■ Adults who identified other traditional providers as the most important providers for managing their finances

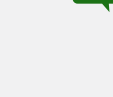
### Low transaction charges is a primary reason for considering a financial service provider

Low charges or cost emerge as a key consideration for Nigerians when choosing financial service providers, particularly for digital providers who have been instrumental in extending last-mile access and deepening formal inclusion to the unbanked. 20% of adults who identified mobile money operators, payment service banks and digital microfinance providers as the most important provider for managing their finances cite low charges/costs as the main reason. On the contrary, less than 10% of adults who identified other traditional providers as the most important providers for managing their finances cite low charges/costs. This reinforces the point that cost plays a key role in shaping consumers' behavior around adoption and usage of financial services particularly the underserved and excluded.

## What needs to happen?



The review declared by the Federal Executive Council should explicitly clarify the stipulation of the Cybercrimes Act that specifically mandates the application of the **levy to businesses rather than consumers**.



The Central Bank of Nigeria (CBN) should take the lead to convene government and ecosystem participants in a constructive, and **holistic consultation about the price regulations for financial services products in Nigeria**. The consultation must seek to find a balance between the need to encourage financial inclusion through low-cost solutions, while enabling industry sustainability through appropriate pricing.

## Conclusion

While the Cybercrimes Levy by the Federal Government is an effort to fund the strengthening of consumer protection in a fast-growing digital economy, the indirect impact of transferred costs to consumers that are already price-sensitive, elevates the risk of further exclusion from formality. To this end, a wider consultation amongst relevant MDAs is required to circumvent or forestall such developments.

More importantly, the CBN should take into cognisance the price-sensitive nature of consumers when it comes to financial services, ensuring pricing policies (financial and non-financial) engender the creation of a more inclusive and resilient financial system.

## About EFInA

EFInA (Enhancing Financial Innovation & Access) is a financial sector deepening organisation working to ensure that the financial system works for all Nigerians, and that all Nigerians have access to affordable and secure Digital Financial Services

The Access to Financial Services in Nigeria Survey (A2F), conducted bi-annually by EFInA provides a comprehensive view of the state of financial inclusion in Nigeria and the barriers and challenges that Nigerians face accessing, or progressing through the financial system.