

Researchers

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Timeline

2021-2022

Sample Size

895 transactions across 29 financial service providers

Research Implemented by IPA

Yes

Final Report

Audit Report

Measuring Fees and Transparency in Nigeria's Digital Financial Services

Abstract

High fees and lack of pricing transparency may be a barrier to accessing financial services, especially for low-income and rural populations. In Nigeria, where access to financial services is lower than in neighboring countries, the Central Bank issued regulations to limit customer fees. However, anecdotal evidence suggests these regulations are not always followed. Researchers conducted a transaction audit to determine whether digital financial service (DFS) providers comply with pricing regulations. The results demonstrate that phone-based financial transactions often fail, it is difficult and costly to find accurate pricing information, and consumers sometimes pay fees that exceed caps set by the Central Bank. These results have wider implications for consumer welfare, inclusion, and trust in financial services.

Policy Issue

The use of formal financial services has direct advantages for consumers. Compared to informal options, formal financial services usually have better security and more reliable costs. While low prices encourage more people to use financial services, a lack of transparency in product pricing reduces trust between customers and service providers, which hampers adoption. There is limited evidence of what fees are actually charged to consumers for DFS transactions. Some possible explanations for the lack of clarity are limited compliance with regulations, various types of fees deducted from mobile wallets and airtime, and inconsistent provider policies between banks and mobile money operators.

Across the world, governments and central banks are taking measures to limit customer fees. However, the effectiveness of these regulations often depends on whether financial service

providers comply. More research is therefore needed to understand both pricing and compliance, and ensure that these are not obstacles to the introduction of financial services.

Context of the Evaluation

Nigeria has a relatively underdeveloped landscape of DFS. Thirty-six percent of Nigerian adults are financially excluded (they do not have a bank or non-bank financial account). This exclusion rate is higher than in South Africa (seven percent), Kenya (11 percent), and Uganda (22 percent), for example.^[1]

The DFS sector has evolved rapidly over the last decade as mobile connectivity and the digitization of payments has expanded. Moreover, the onset of COVID-19 accelerated this transition, with year-on-year growth in electronic transaction volumes of 108 percent and transaction value of 106 percent between January and May 2021.^[2] However, this growth has been driven by the already banked population, as financial exclusion only decreased slightly from 37 percent in 2018 to 36 percent in 2020.^[3] Concerned about slow progress in financial inclusion, the Central Bank of Nigeria reviewed price guidelines in 2019 and issued revised guidelines that came into effect in January 2020. These guidelines significantly reduced the costs of a range of transaction fees.

Details of the Intervention

Note: This study is not a randomized controlled trial

Researchers from IPA and Africa Practice's Inclusion for All Initiative audited mobile financial transactions to determine whether different providers are complying with the new pricing regulations in Nigeria. An example of a conducted audit is transferring money digitally between accounts and comparing the balance to the amount sent. The difference between the amount sent and the change in the balance represents the true fee paid. By comparing this true fee with providers' stated fees and regulators' fee caps, researchers were able to measure levels of pricing transparency and regulatory compliance. Researchers identified regulated fee limits through a review of current regulatory guidelines and official costs by visiting providers' websites and reaching out to customer care via phone calls, websites' chat features, Facebook and WhatsApp. The research team conducted 895 transactions across 19 deposit money banks and ten mobile money operators.

Results and Policy Lessons

Overall, the results suggest that in the Nigerian mobile money market there is a high rate of product failure, difficulty in finding accurate pricing information, and consumer fees exceeding caps set by the Central Bank.

Product reliability was low with significant variation across providers and channels used. Financial transactions conducted via mobile applications succeeded 82 percent of the time, while USSD-based transactions only had a 42 percent chance of success. Mobile money

operators and deposit money banks had a 43 percent and 64 percent chance of success, respectively. On aggregate, two-fifths of all transactions failed.

Limited pricing transparency restricts consumers' ability to make informed choices about the products and providers they use. Researchers found that providers are often unable to share fee information for some types of transactions, and when they do it is likely to be inconsistent. When comparing across all channels, the most likely outcome (39 percent of cases) was to receive inconsistent pricing information. When consistent information was received from customer care it was likely to be inconsistent with observed prices, and gathering the information could be costly in terms of money and time.

Lack of compliance with Central Bank of Nigeria pricing policies limit the effectiveness of regulations that promote financial inclusion goals. Account openings were particularly prone to non-compliance: though regulations state that opening an account should be free, 62 percent of providers charged a mandatory “ATM card fee” when opening an account.

Sources

^[1] EFINA. Access to Financial Services in Nigeria 2020 Survey. Enhancing Financial Innovation and Access, June 3, 2021.
<https://a2f.ng/wp-content/uploads/2021/06/A2F-2020-Final-Report.pdf>.

^[2] Nigerian Inter Bank Settlement System (NIBSS) data. See <https://www.proshareng.com/news/Mobile%20Money%20and%20Telcos/May-2021-E-Payments-Data:-Young-and-Getting-It--Records-Impressive-Growth/57909>

^[3] EFINA. Access to Financial Services in Nigeria 2020 Survey. Enhancing Financial Innovation and Access, June 3, 2021.
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