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Harnessing Nigeria's fintech potential

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**How stakeholders
could position the
fintech sector for
growth now and
beyond the crisis**

Introduction

The development of the fintech industry has been a bright spot in the Nigerian economy with the potential to get brighter—even given the challenges posed by the ongoing COVID-19 crisis.¹ The sector has been gaining momentum, as agile and innovative startups move to take advantage of increased technology penetration and high levels of unmet needs in the traditional banking sector to seize market share. In the past three years, fintech investments in Nigeria grew by 197 percent, with the majority of investment coming from outside the country.

Fintechs have led with innovation in product development, designing useful, convenient and affordable financial products and services for millions of Nigerians. In the process, they have created a multiplier effect across the economy, unlocking new business models beyond financial services, fueling the growth of e-commerce, increasing the STEM talent pipeline, and moving the needle on progress towards the country's development goals.

Despite these impressive gains, the impact created by fintechs is still only a fraction of its potential. Most fintechs have targeted early adopters, individuals who are already making use of banking and other financial services and are willing to try out new ones. They have not had the capacity—or appetite—to introduce new customers to the banking system. But opportunity knocks for those who can find ways to deliver new and better services to the underserved and unbanked. Nigeria still faces a significant financial-inclusion challenge, with more than 40 percent of the country's population of around 200 million people without a bank account.

This report explores the underlying value drivers of Nigeria's fintech sector and how these may shift post COVID-19. So far, the impact of the crisis on fintech has been mixed. The lockdowns and government-driven stimulus responses have accelerated underlying trends driving digital adoption and financial inclusion, particularly among seniors and consumers at the bottom of the pyramid—opening up new prospects for fintechs. However, the macroeconomic impact and the disruption to employment and incomes are expected to have a negative effect on funding and specific product lines—such as lending—with implications for fintech business models and the overall market structure going forward.

Given the value at stake for the broader society and economy, our analysis shows it is vital that ecosystem participants work together at this time to protect gains and accelerate growth in this sector. We highlight key considerations and actions that regulators, governments, and development partners could take to create the conditions that will support recovery and unlock the next wave of innovation in the sector. We also discuss how market participants could position themselves for growth by leveraging their unique strengths and capabilities within the context of a rapidly changing landscape. For those who act now and act decisively, the rewards are likely to be significant.

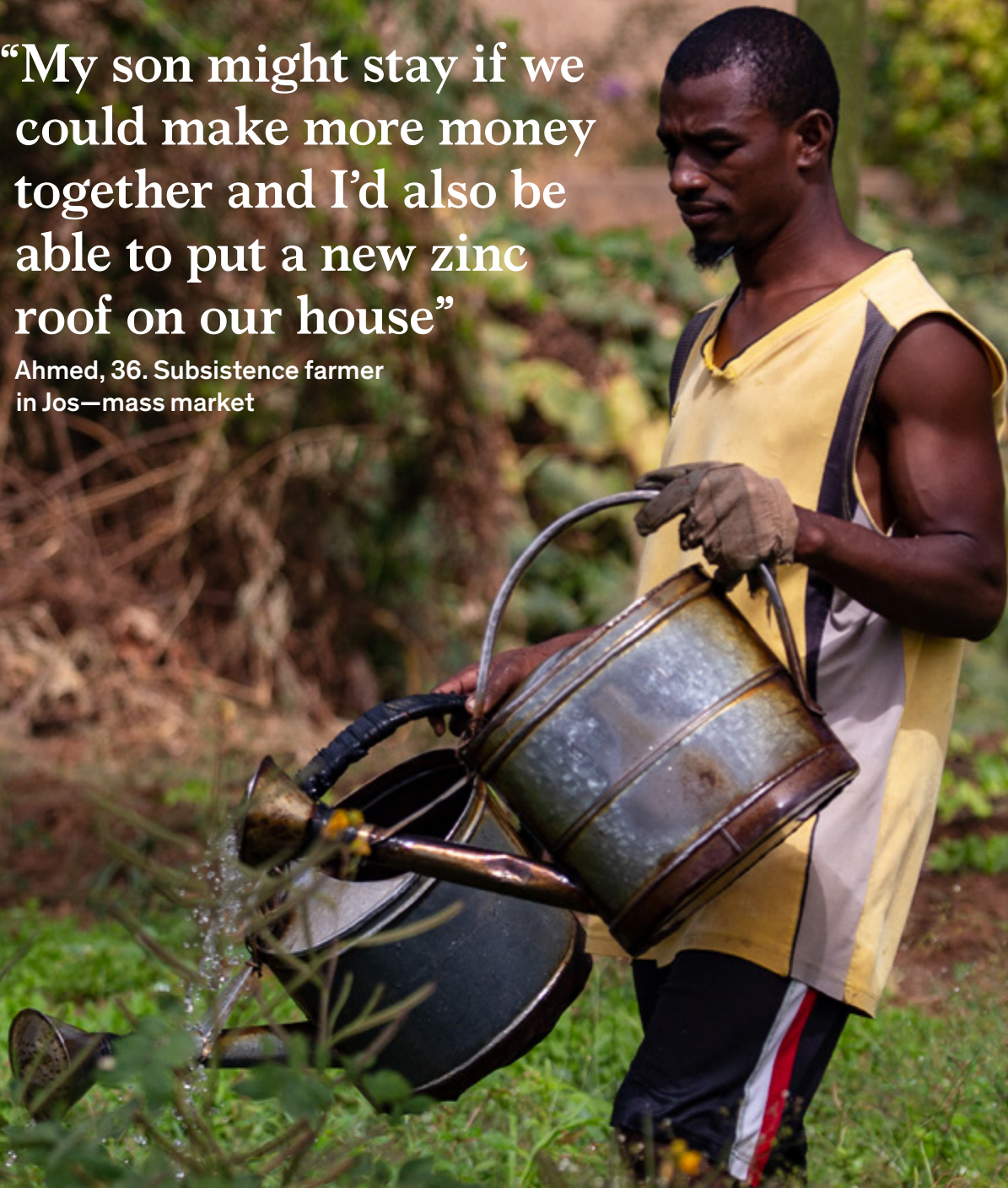
~60million

Number of Nigerians without a bank account

¹ In this report, the terminology "fintech" is defined as a technological innovation in the prevailing model of delivering financial services, covering different types of players (incumbents, startups, technology companies, etc.) and an array of business models (B2B, B2C, etc.). This may be different from narrower definitions where fintech companies are only those that provide technology or infrastructure to financial institutions, or do not include incumbents with fintech offerings.

“My son might stay if we could make more money together and I’d also be able to put a new zinc roof on our house”

Ahmed, 36. Subsistence farmer in Jos—mass market



The Nigerian financial services landscape is ripe for fintech growth

Banking in Nigeria remains an attractive sector, with over \$9 billion in value pools, but despite high levels of competition, the vast majority of consumers are underserved. Lack of access to services, especially in rural areas, issues of affordability, and poor user experience all contribute to the frustration consumers experience right across the customer






spectrum. This has created an opening that fintechs have been quick to take advantage of, with many stepping up to develop enhanced propositions across the value chain to address pain points in affordable payments, quick loans, and flexible savings and investments, among others (Exhibit 1).

Exhibit 1

Fintechs are developing innovative value propositions across the financial services value chain to address customer needs.

Fintech value propositions

Not Exhaustive

Products	Sub-category	Core value proposition
Payments 	Wallets	Easy to sign up, easy to use stored value wallets using mobile phones and incorporating key use cases for customers across transportation, food and digital services
	Processors	Simplified channels to allow SMEs and corporates to receive online payments from customers
	Remittances	Easy, instant cross-border transfers at a fraction of the cost and time of conventional players—often leveraging cryptocurrency
	Merchant service providers	Merchant terminal providers allowing merchants to receive offline payments
Savings 	Savings	Automated, disciplined and high-return savings for middle class customers and millennials
	Wealth management	Offer customers investment options in diverse industries on online platforms at attractive rates (significantly higher than banks' savings accounts)
Lending 	Retail lending	Instant, unsecured, short-term loans to retail customers leveraging alternative credit scoring algorithms and data
	MSME lending	Quick, unsecured working capital loans to MSMEs with minimal documentation
	Lending infrastructure	Lending platform for banks and other lending players to simplify lending process and provide risk assessment
Services 	Personal finance	Automated expense tracking, budgeting, and investments leveraging machine learning
	Merchant solutions	Value added services for MSMEs and merchants, such as inventory management, loyalty and accounting
	Financial institution	Platforms and services for financial services providers to leverage the provision of digital services to their customers e.g., software, automation
Accounts 	Savings	Fully digital banking services leveraging smartphones
	Wealth management	Insurance marketplaces

At the same time, a youthful population, increasing smartphone penetration, and a focused regulatory drive to increase financial inclusion and cashless payments, are combining to create the perfect recipe for a thriving fintech sector. Nigeria is now home to over 200 fintech standalone companies, plus a number of fintech solutions offered by banks and mobile network operators as part of their product portfolio. Between 2014 and 2019, Nigeria's bustling fintech scene raised more than \$600 million in funding, attracting 25 percent (\$122 million) of the \$491.6 million raised by African tech startups in 2019 alone—second only to Kenya, which attracted \$149 million.²

However, the sector is still relatively young. As Africa's largest economy and with a population of 200 million—40 percent of which is financially excluded—Nigeria offers significant opportunities for fintechs across the consumer spectrum, notably within the small and medium-sized enterprise (SME) and affluent segments and, increasingly, in the mass-market segment (see Box 1).

Digitally savvy, middle-aged and young affluent individuals face poor user experience on products and find the value-add from using financial products underwhelming.

They expect speed and simplicity in their dealings with their financial service provider: "I want my online shopping to be seamless. I don't want to stare at my screen waiting for a one-time password (OTP)," one respondent complained to us.³ The product value proposition for this segment is similarly limited. Returns on savings are low and there is limited access to investment opportunities, both domestic and international. With savings interest rates ranging between 4 and 5 percent per annum and inflation at 11 to 12 percent pre-COVID-19, traditional savings accounts have proven to be ineffective in achieving financial goals.⁴

Senior affluent individuals also face poor user experience on products and limited availability of value-added services such as advisory and estate-planning services. For this segment, easy-to-use digital applications are important, as well as quality advisory service and support. A survey respondent told us that he did not want to have to go into an office to get his issue resolved because it could not be resolved over the phone.⁵ Some key pain points include slow responses to complaints, complicated or non-functional banking applications, limited financial tracking solutions, and lack of advisory support for investment management.

A youthful population, increasing smartphone penetration, and a focused regulatory drive to increase financial inclusion and cashless payments, are combining to create the perfect recipe for a thriving fintech sector.

² African Tech Startups Funding Report, Disrupt Africa, 2019.

³ Customer interviews and survey (n=215), Nigeria: 49% females and 51% males conducted January to February 2020. Names have been changed to protect the identities of people interviewed.

⁴ Ibid; National Bureau of Statistics website.

⁵ Customer interviews and survey op. cit.



Ahmed, 36

Subsistence farmer in Jos—mass market

“These days, all the kids want to move to the city when they finish school. I’ve been living in this community all my life. My parents farmed this land before me and I would like to pass it to my eldest son one day, but I don’t think he will stay.”

Ahmed is a skilled farmer and his two acres provide for him, his wife and three children. They sell any extra produce in the local market, where his wife has a stall selling firewood. With no banks nearby, cash is king in the village.

“I know I can get more from my land if I could get hold of chemicals, better equipment, and good quality seed like some of the other farmers nearby. My son might stay if we could make more money together and I’d also be able to put a new zinc roof on our house.”

“My brother told me I can get money from the bank to buy things for my farm, but there are no banks nearby and I don’t have an account, so I don’t know how. He lets me use his account when I need to make payments, but he is always complaining about the high charges. They even charge you to take out your own money, so I’m not sure if it’s worth getting my own account or asking them for money.”



Toyin, 30

Middle manager at an oil and gas company, Victoria Island—young affluent

“My husband and I work hard, and we both want the same things in life: a beautiful home, a chance to travel and enjoy family holidays, and the best education for our daughter. It’s frustrating when you feel your money isn’t working as hard as you are. The banks here in Nigeria are still very backwards in a lot of ways, but it is getting better.”

Tech-savvy Toyin and her husband have the latest smartphones and love the convenience of online shopping and online banking.

“I want to spend my weekends enjoying time with my family or going out to art exhibitions with my friends. I don’t want to be stuck in a busy shopping center or, worse, in the bank. Why should I, when I can do all of that from my mobile phone?”

The digital experience does not always live up to the promise and Toyin is determined to spread her investments as much as she can—including overseas.

“I’d like to invest abroad, maybe even in property. It’s important to us to spread our risk and our investments as much as possible and to do this while we’re still young. We want to send our daughter to study in America or England one day, so it would be nice to have money invested in those countries.”



Chijioke, 62

Retired Chief Financial Officer,—older affluent

“I thought I’d have more time on my hands after retiring, but life is still busy. Serving on the board of a number of organizations keeps me connected to the business world. And I’m happy about it.

My wife was worried I’d be bored without work, and secretly so was I.” After retiring from his role as CFO at a leading accounting firm, Chijioke hasn’t slowed down that much—but he finally has a chance to travel twice a year to visit his children in the United Kingdom.

“My eldest is studying history and politics and my youngest has just enrolled in a business degree. My wife and I want them to have more opportunities than we had at their age.” Chijioke’s wife runs a high-end tailoring shop and many of her clientele have children studying and working abroad too.

“I use my traditional bank account to pay for our children’s living expenses in the UK and do most of my own spending on credit cards. I want premium cards that give me something back and make it easy to spend when I’m overseas. Moving money between local and foreign accounts should be far easier, too. I understand the need for transaction limits, but why can’t I set these myself? I also want to be able to manage my portfolio of local and foreign investment accounts, mortgage and property management services conveniently online.”



Ngozi, 45

Mini-market owner, downtown Abia—SME

“Business is going well. People like coming here to buy food and household items—I offer better deals than the big shops and they know me personally. I love my customers.”

It’s been six years since Ngozi opened her neighborhood supply shop and she’s well established in her community. The business-savvy mother of four is now looking to expand the range of items on her shop floor.

“There’s a bigger shop for rent around the corner, but to move and expand I need a loan from the bank. They offered me a 25 percent interest rate, which is crazy. The shop is busy, but my margins are tight. I’m speaking to family members to see if someone will be willing to lend me the money instead.”

Ngozi has also been saving up for her children’s education and would like that money to work much harder: “I’ve been putting away a little bit of money whenever I can, but it’s not growing as quickly as I’d hoped. Sometimes I wonder if there are better ways to invest the money—I just don’t want to risk it all.

“I’m busy in the shop seven days a week; I don’t have time to go around from bank to bank looking for better deals on loans and savings.”

¹ Customer interviews and survey op. cit.

SME owners in the meantime have to contend with limited access to financing and value-added services. Loans offered by banks typically come with steep interest rates, a lengthy application process, and collateral and guarantor requirements that SMEs and micro enterprises find difficult to fulfil. This is hampering the process of accessing loans: “I have heard bad tales from those who took bank loans—from the stress of meeting the requirements, to the pains of paying high interest on the loans, and because of this, I don’t think I will ever take a bank loan,” said one survey respondent. Payment solutions such as Point of Sale (POS) terminals can also be challenging for SMEs to obtain, owing to high volume requirements and costs. In addition, cross-border payments with foreign suppliers and daily transaction limits that inhibit bulk buying are also points of frustration for this segment.

Looking beyond this “low hanging fruit”, there are also opportunities in the growing mass market, which has the added benefit of having low competitive intensity. Individuals in this segment mostly require low-cost accounts for their financial transactions, such as access to loans at affordable rates and affordable pay-as-you-go health-insurance premiums. However, lending rates are typically high (loan interest rates are as high as 25

percent).⁶ Additionally, onerous documentation requirements and hidden charges are cited by many individuals as concerns. When asked why they had switched to using fintech, one consumer told us: “I know how much they charge me, unlike banks that will just be deducting charges.”⁷

As in other markets, payments and lending lead the way, but other financial services are opening up

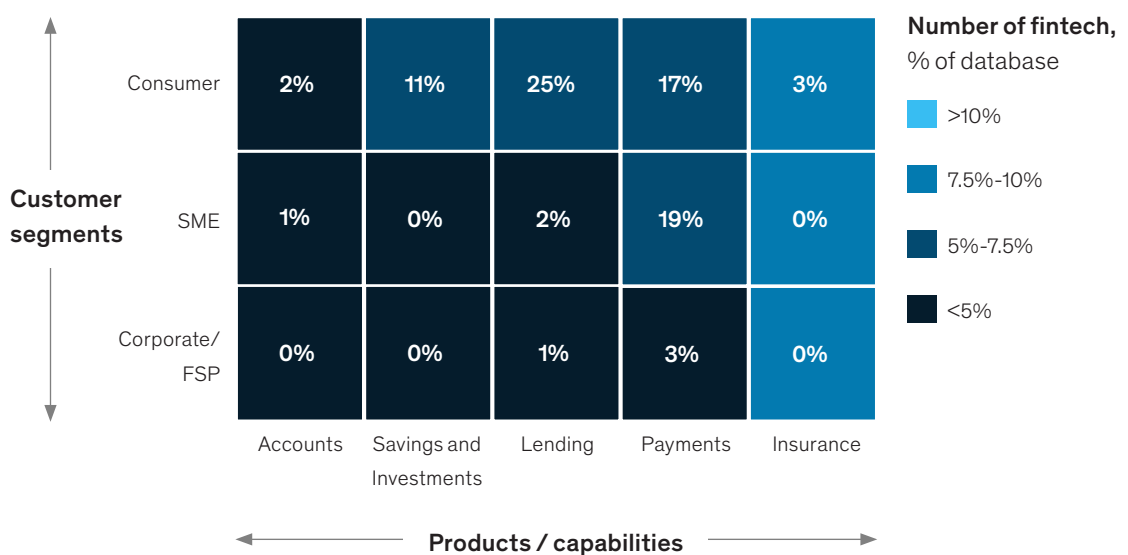
In line with the evolution of fintech in other markets, fintech activity in Nigeria started in payments and moved into other areas. Payment solutions currently represent around 15 percent of banking revenue pools in the country and continue to grow. Beyond this, consumer lending—and, increasingly, asset management—are focal points for fintech activity, while insurance, across all segments is an untapped opportunity for those that can leverage technology to provide affordable healthcare premiums, enhance insurance distribution, and also create differentiated pricing based on customer data. The SME segment is relatively underserved but a few players are starting to show significant traction here (Exhibit 2).

Exhibit 2

Nigerian fintechs are primarily focused on payments and consumer lending.

McKinsey fintech Landscape

Estimates



Source: McKinsey fintech database, panorama Global Banking Pools

⁶ CBN website.

⁷ Customer interviews and survey op. cit.

The factors driving growth in each of these segments vary. Payment-focused solutions have surged over the past two years, spurred, in part, by the central bank's financial inclusion drive and favorable regulatory policies, including revised Know your Customer (KYC) requirements for lower-tier accounts and incentives to accelerate development of agent networks across the country. Paga, OPay, Cellulant, and Interswitch's QuickTeller compete with mobile banking applications and bank unstructured supplementary service data (USSD) channels for send-and-receive transactions and bill payments.

Fintech activity in lending is picking up, thanks to the fact that fintechs are able to leverage payment data to determine lending risk more easily and utilize smartphones as a distribution channel. For example, fintech startups such as Carbon and Renmoney have successfully leveraged alternative credit-scoring algorithms to provide instant, unsecured, short-term loans to individuals. A few fintechs, such as Migo, have also stepped up to offer unsecured working-capital loans to SMEs with minimal documentation. Banking fintech solutions have been fast followers here with leading banks launching digital lending platforms like Quick Credit by GTBank and Quickbucks by Access Bank.⁸

Addressing SMEs' needs for frictionless and cost-effective payments has also seen this segment become something of a growth area for fintech; SME payments have grown at 28 percent compound annual growth rate over the last three years.

For example, online payments provider Paystack has developed a simple plug-and-play solution that helps merchants receive payments within minutes of registration. And their offering extends further, providing value-added services on invoicing, accounting integration and transaction dashboards to help SMEs stay organized. Today, over 25,000 merchants are signed up on the Paystack platform.⁹

Fintech activity is also expanding into the savings and investments segment. As consumers seek convenient means to earn better returns locally and gain access to offshore investments, fintechs are helping to democratize their options by offering flexible products with attractive interest rates. For example, CowryWise and PiggyVest target millennials and young professionals, offering them an easy-to-use application that provides them with higher interest rates on their savings relative to a traditional bank account (10 to 13 percent versus 4 to 6 percent). They also provide financial-management tools, enabling users to save towards specific goals, and information on verified micro-investment opportunities. Bankly, a savings app focused on the informal mass market, is digitizing the local form of savings "ajo"—shifting users from saving with a respected individual in their vicinity, to saving on the Bankly app, offering greater security through alerts and notifications, and the ability to access their savings from a wide agent-network base. More recently, the market has seen an influx of asset management fintechs such as RiseVest, Chaka, and Bamboo, offering users an opportunity to invest in international stock markets from their local currency account through their app.

Fintechs can create impact in three broad dimensions: through stimulating economic activity, by creating a multiplier effect, and by driving progress towards development goals.

⁸ Abiola Aduola, "GSB, UBA, Zenith, Access Banks' salary advance loans," Nairametrics October 12, 2019.

⁹ Paystack website, paystack.com.

Customer adoption of fintech is primarily being driven by access and convenience, and trust is critical

Despite the dissatisfaction among consumers with traditional banking services and the rise in fintech products to address these pain points, the switch to fintech is not an automatic step for many. The majority of banked customers, 67 percent, still say that they trust their bank more than fintech.¹⁰ However, trust in fintechs is growing, particularly among lower-income segments, with 51 percent of youth and mass-market customers saying they trust fintech about the same as they trust banks. SME owners also say that they increasingly trust fintech because of its speed in settlements (Exhibit 3).

A number of factors are contributing to the growing trust in fintech, including the growing use of agents (individuals or small businesses contracted to financial institutions or mobile network operators that are able to offer basic financial services in local communities), customer education, transparency in pricing, and ease of money withdrawal. Generally, the uptake of fintech varies from market to market, depending on the extent to which traditional banking is deeply rooted and regulation is supportive of the sector.

In Nigeria, our research suggests that access and convenience are the highest contributors to the adoption of fintech, with 57 percent of respondents prioritizing access and convenience over price and value. As one young customer in the east of the country told us, the prime reason for their switching to fintech was that “I can pay all my bills, do my transfers on my phone without going to the branch.”

Further evidence of the importance customers place on access and convenience can be seen in the success of players such as OPay and Quickteller, which have successfully grown their customer base through use cases integrated with customers’ lifestyles, making their lives easier when it comes to traveling, eating, and shopping. For example, OPay focused on offering transportation and food, which account for roughly 50 percent of spending at discounted prices by individual customers.¹¹ Other fintechs are taking a similar approach with SME owners, successfully offering services for everything from supplier payments to POS services for walk-in customers.

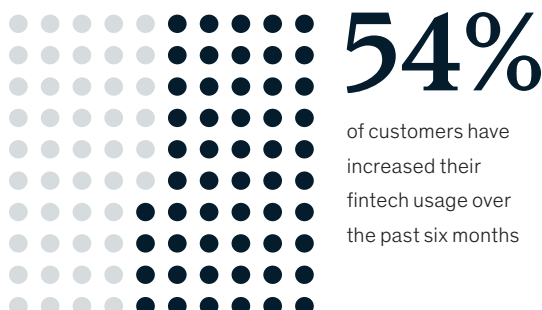
The role of referrals is also key in driving adoption, especially for women. Our research indicates that 55 percent of customers first heard about a fintech product through a friend—and that number rises for women.

Exhibit 3

Customers value access and convenience, leading to increased fintech usage.

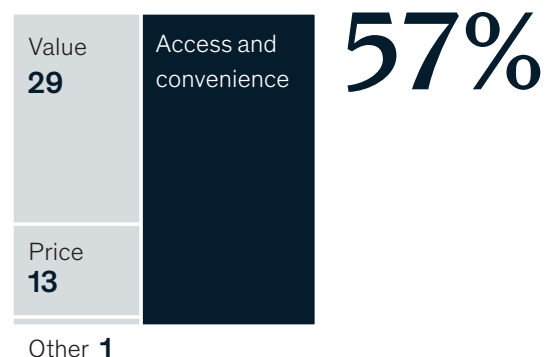
Fintech usage has increased over the past six months ...

Fintech usage over the past six months, %



... and access and convenience is the highest contributor to adoption¹

Reasons for fintech adoption, % share



¹ Percentage of customers surveyed as the reason for adoption.

Source: Customer interviews and survey (n=215), Nigeria. 49% females and 51% males conducted January to February 2020.

¹⁰ Customer interviews and survey op. cit.

¹¹ Ibid

For example, in Lagos, 65 percent of women heard about fintech through a friend. As one woman respondent told us: “My friends share any promo they have with me. It’s part of the sisterhood.” The products most often referred include savings, e-wallets and accounts.¹²

Fintech adoption is highest in Lagos and among middle-class and affluent customers. This is driven by the fact that most people in the city and in those segments have higher educational levels, access to more reliable digital infrastructure, and stronger economic power. However, fintech uptake is also growing fast in the south—with individuals using USSD, agents and cards at entry level; 38 percent of mass-market and youth fintech users in this region use savings products. Meanwhile in the north, fintech uptake is still nascent, although increasing OPay applications and the roll out of agent banking locations could signal that things are shifting.

The full potential of fintech in Nigeria remains untapped

Despite the increased activity in the fintech sector in Nigeria and the positive multiplier effect in the economy, there is significant potential for further growth. Fintech accounted for only around 1.25 percent of retail banking revenues in 2019.¹³ And while fintech investments in Nigeria grew to approximately \$460 million in 2019, the majority of which was from external investors, this was only a small fraction of the \$36 billion invested in fintech globally.¹⁴

fintechs can create impact in three broad dimensions: through stimulating economic activity, by creating a multiplier effect, and by driving progress towards development goals. Economic impact will primarily come from expanding revenue pools and attracting foreign direct investment to the country. The sector can unlock economic benefit by driving increased productivity, capital, and labor hours through digitization of financial services. Increased fintech activity could also indirectly grow the digital economy by, for example, providing business-to-consumer (B2C) marketplace tools such as payment integration on social media platforms, and further enabling the Nigerian e-commerce industry.


And finally, fintech can support Nigeria’s human capital development by driving financial inclusion and literacy through the provision of accessible and affordable financial products that are innovative and cater to the needs of unbanked and underserved segments of the population across culture, gender, and geography. Significant opportunities also exist for fintech to enable solutions within education and health to address societal challenges such as student financing, digital learning, and affordable health insurance.

One of the key factors preventing the sector from achieving its full potential has been that, to date, fintechs have had limited appetite to develop commercially viable use cases to serve the mass-market segment owing to the significant investment required. But this is changing, in part as a result of the impact of the COVID-19 crisis. With consumers turning to digital options during lockdown and government using digital channels to roll out aid packages, it has become clear that there is an untapped opportunity to convert the underbanked and unbanked to fintech solutions and unlock the economic and social benefits that this promises.

¹² Ibid

¹³ McKinsey Global Banking Pools

¹⁴ African Tech Startups Funding Report, Disrupt Africa, 2019.



“I don’t want to be stuck in a busy shopping center or, worse, in the bank. Why should I, when I can do all of that from my mobile phone?”

Toyin, 30. Middle manager at an oil and gas company

COVID-19 has introduced some roadblocks, but the outlook for fintech remains positive

The ongoing COVID-19 crisis is exacting a heavy human cost, affecting both lives and livelihoods. As economic growth slows globally, concern is increasing about a recession in Africa, putting up to one-third of jobs at risk.¹⁵ An early McKinsey analysis shows that in a least worst-case scenario, Nigeria's GDP growth could decline by nearly six percentage points, with a reduction in consumer spending on food and beverages, clothing, and transport.¹⁶ A McKinsey consumer survey in early April found that two-thirds of consumers in Nigeria were cutting back on their spending as a result of the crisis, although Nigerians were also more optimistic about recovery than their counterparts in South Africa.¹⁷

fintechs, in common with many companies across the world, face challenges related to the impact of COVID-19 on their people and revenues as a result of these shifts. They will not be immune to the pain the banking sector may face, such as loan defaults, low debt and profit ratios, and low profits in the medium term. Having said this, the picture is mixed. On the one hand, fintech funding is drying up and many still face negative cash flow; on the other hand, fintechs are faster to market and have smaller and more agile teams, making them more likely to be ready to support the shift to digital that appears to be underway.

Exhibit 4

A number of macroeconomic reactions to COVID-19 could impact the Nigerian fintech landscape.

Macroeconomic reactions and impact

	What we are seeing	Likely fintech implications	Strategies/opportunities
Currency devaluation 	Dollar exchange rate for foreign investors changed from NGN 307 to NGN 361 ¹	Reduction in Nigerian fintech funding following global trends Potential top-line revenue challenges	Potential for local investors and corporate players to provide funding
Disruption to employment and incomes 	Forced unpaid leave for formal workers Loss of jobs	Reduced sales forecasts Shift in priority products and services	Optimize costs to maintain lean operations Clear priorities from focusing spend only on high ROI investments
Regulator stimulus 	Fee waivers Increase in transaction limits	Increase in transaction volumes Reduction in margins and revenues	Increase digital ID adoption , leveraging mass distribution of funds/CCTs ²
Digital Adoption 	Increased use of digital and mobile financial services Increase in online channel purchases	Increased pressure on digital infrastructure capacity Potential increase in competition among fintech players due to increased digital adoption	Opportunity to stress test digital capacity for future purposes Partner with banks that already have relationships with SMEs and access to distribution channels

¹The exchange rate on March 10, 2020 and May 08, 2020 was NGN 307: \$1 and NGN 361: \$1 respectively

² Conditional Cash Transfers

Source: DFS Policy Tracker, Bloomberg, press releases

¹⁵ Kartik Jayaram, Acha Leke, Amandla Ooko-Ombaka, and Ying Sunny Sun, Tackling COVID-19 in Africa, McKinsey & Company, April 2020

¹⁶ Ibid

¹⁷ Yaw Agyenim-Boateng, Damian Hattingh, Puso Thahane, and Sian Kiri, Survey: Nigerian consumer sentiment during the coronavirus crisis, McKinsey & Company, April 2020

Already, we have seen a wave of innovation and collaboration as the sector responds to the COVID-19 crisis. For example, Nigerian fintech Flutterwave has augmented its core payments business to speed up the launch of Flutterwave Store, a portal that allows African merchants and SMEs to create digital shops to sell online.¹⁸

We are seeing four key macroeconomic reactions to COVID-19 that could have an impact on the Nigerian fintech landscape in the immediate term (Exhibit 4).

First, the declining dollar exchange rate for foreign investors from 307 naira to 361 naira between March and May has had a knock-on effect for Nigerian fintech funding. Globally, fintech funding is drying up as investors shift to safer investments. For example, between March 2019 and March 2020, European venture-capital (VC) fintech funding dropped from \$85 billion to \$48 billion, with customer relationship management (CRM) and enterprise software startups taking the biggest hit.¹⁹ Unlike their European counterparts, Nigerian fintech founders do not have access to government support and will need to find creative ways to raise funding at reasonable valuations in a market downturn.

Second, as job losses and forced unpaid leave for formal workers increase, consumers are likely to review their spending in light of their reduced incomes and what they consider “essential services”. Transaction volumes in certain sectors, such as travel and transportation, will experience significant reductions, with a corresponding impact on revenue forecasts.

Third, regulator stimulus is increasing as regulators and authorities step in with additional crisis support packages. The Central Bank of Nigeria (CBN) has reduced interest rates on all intervention funds from 9 percent to 5 percent and the government has created a 50 billion naira intervention fund for households and SMEs affected by COVID-19.

Several African governments are also turning to fintech solutions as an effective means of distributing aid to vulnerable customer segments and businesses, as they reduce the hygiene risks inherent in physical cash exchanges.²⁰

This, in turn, is contributing to the fourth key reaction, a marked trend towards a reliance on digital transactions. Industries in some markets are seeing approximately two years' worth of digital adoption in just two months, with online grocery shopping, for example, having grown by more than 1.7 times during COVID-19.²¹ Consumers are migrating to digital transactions for their financial services and most Nigerian consumers we surveyed say that they expect to increase their use of digital and mobile banking services post-crisis.²² Furthermore, it is likely that digital adoption will extend beyond financial services to other needs—social, educational, and health.

Significantly, growth in agent banking during the crisis is dramatically opening up the unbanked and underbanked segments. Agent transactions surged by 859 percent between March and April 2020, with agents able to provide money—including government aid—and perform various transactions to tide consumers over during this difficult time.²³ As organizations such as the Shared Agent Network Expansion Facility (SANEF) continue to drive consumer education and support agent rollout across the country, the barrier to entry for smaller fintechs with less funding to move into this space will be lowered.

¹⁸ Jake Bright, “African fintech firm Flutterwave launches SME e-commerce portal,” Tech Crunch, April 2020

¹⁹ McKinsey European Participant Study, startups focused

²⁰ Jake Bright, “Africans turn to mobile payments as a tool to curb COVID-19,” Tech Crunch, March 2020.

²¹ Survey: McKinsey & Company COVID-19 Digital sentiment insights: results for UK market.

²² Survey: Financial Insights Pulse Survey, n=516, sampled to match Nigeria gen pop 18+ years: Nigeria survey April 13, 2020.

²³ Information gained from interviews with the management team at Shared Agent Network Expansion Facilities (SANEF).

Fintech is pivoting to respond to the crisis and is likely to continue to grow in line with other emerging markets

The fintech sector globally is responding in a variety of ways to the challenges of the current crisis, including finding additional funding, forging new partnerships, engaging in mergers and acquisitions (M&As), and pivoting business models. Despite the turbulence, fintech continues to be well positioned to find a way through the crisis.

Prime examples include JP Morgan's partnership with supply-chain finance provider Taulia to develop a customized trade finance solution for its customers.²⁴ And Facebook has moved its launch of Facebook Shops forward as a result of the crisis. The initiative allows SMEs to take their business online at speed by setting up free storefronts on Facebook and Instagram that will be powered by third-party services, including Shopify, BigCommerce, and Woo.²⁵ Nigerian retail chain Spar is among the many businesses that have used this platform to create an online shop in the past few months.

Our analysis finds that COVID-19 is accelerating existing trends, but not changing the fundamental trajectory of the sector. The evolution of fintech has varied significantly from region to region. In China, where regulation has been more accommodating, ecosystems were formed by technology giants, which have directly entered and reshaped financial sectors such as digital payments, loans, and wealth and asset management. In the United States and Europe, which have stringent regulatory requirements and well-established banking offerings, efforts have been more fragmented and large technology players have been limited to payments offerings and some small-scale lending offerings.²⁶

Fintech growth in Nigeria is likely to be broadly aligned with the growth trajectory of similar emerging markets where multiple fintech archetypes successfully co-exist, typically consisting of a few dominant players such as Tencent and Ant Financial in China, PayTM, PhonePe, and Google Pay in India, and Grab and GoJek in Indonesia, and a long tail of specialized niche players. As fintech activity in Nigeria matures and new pockets of growth emerge, our analysis suggests three broad archetypes going forward:

1. **Digital banks/challenger banks** comprising mostly incumbent financial service providers providing a digital value proposition and a distinct offering from their traditional model. These could also include fintech startups, similar to NuBank in Brazil or Revolut in the United Kingdom.
2. **Niche-focused players** comprising fintech startups focused on specific product niches such as credit and payments; segments such as SMEs; or geographies, for example, Northern Nigeria. It could also include business-to-business (B2B) players focused on supporting incumbents and corporates to improve their offerings. Experience in other markets suggests that these types of players thrive in their domain of expertise, focus on distinctly local problems, and are often acquisition targets for larger players.
3. **Ecosystem orchestrators**, comprising large, deeply funded players operating as platforms that act as a gateway for customers to a wide range of services beyond financial ones, such as transportation and food. These types of players typically are "tech-fin" technology companies with large customer bases that offer embedded finance. In Nigeria, banks and telecom operators have also indicated their intention to vie for this space.²⁷

²⁴ Molly Smith and Michelle F Davis, "JPMorgan to unlock trillions of liquidity with tech partnership", Bloomberg, April 26, 2020

²⁵ Hannah Murphy, "Facebook takes on Amazon with online shopping venture", Financial Times, May 19, 2020.

²⁶ Jeff Galvin, Feng Han, Sarah Hynes, John Qu, Kausik Rajgopal, and Arthur Shek, Synergy and disruption: ten trends shaping fintech, McKinsey & Company, December 2018

²⁷ Lexi Novitzke, "Reaching the unbanked—MTN to shake up Nigeria's fintech sector," The Africa Report, July 31, 2019; Abubakar Idris, "Why Nigeria's biggest payments companies have entered e-commerce business," Tech Cabal Daily, June 23, 2020

A number of drivers including regulation, the level of technology disruption, and the depth of funding may play a role in determining which companies can succeed in these archetypes.

Irrespective of archetype, our analysis of the Nigerian context suggests that five key elements could be common among successful fintechs going forward.

1. **Compelling use cases that address unmet needs and are driven by differentiated technology**

The ability to anticipate consumer needs and develop innovative solutions that resonate with the consumer will be critical to players who are seeking to establish themselves. Successful fintech players will therefore need to embrace a test-and-learn mindset, leveraging consumer-focused experiments to develop value propositions and scale them.

2. **Access to large pools of data and advanced analytics capabilities to generate innovative products and penetrate new markets**

As the fintech market in Nigeria matures, business models in financial services will be increasingly data-driven, and data will be an integral part of the value chain. Substantive impact in fintech is largely driven by the ability to leverage proprietary data, in order to derive insights. This enables organizations to accurately design and target products, and own the customer relationship. In Nigeria, where credit history and other traditional data sources are limited, the ability to pool and mine unconventional data to create new scoring and evaluation algorithms will be central to unlocking the next wave of innovation. This will facilitate risk management, which, as seen in more developed markets, is a key requirement in the development of new products, especially in lending and insurance tech—both relatively untapped growth pockets in Nigerian fintech.²⁸ Nigeria's data-protection regulation currently limits data harvesting, thus players that already have access to historic data could have a competitive edge.

3. **The ability to attract and retain quality talent to support rapid scaling**

Access to talent will remain a key differentiator for Nigerian fintech companies. A bright spot in the COVID-19 crisis is that the talent pool is set to become more global as more and more people adopt a work-from-home (WFH) model. Fintechs that were previously unable to attract talent to Nigeria on a full-time basis can now leverage remote working to retain scarce skills. Flexible work arrangements could cater for quarterly team-building opportunities, while allowing people to work from home anywhere in the world.

4. **Strong risk management capabilities and an understanding of financial services to adapt to regulatory requirements**

As regulatory oversight increases, a thorough understanding of financial services in the Nigerian context, particularly in compliance, is becoming a prerequisite for success. Most fintechs have a technology background but limited experience in financial services and will need to ensure that they develop or acquire this competency.

5. **A large customer base**

A large customer base is an underlying feature of the most successful fintech companies globally, primarily because higher transaction volumes enable fintech companies to price competitively. Additionally, a large customer base allows for faster accumulation of valuable data that can be analyzed to improve products and services, risk management, and dynamic pricing.²⁹ In other emerging markets, the genesis of fintech in terms of services offered has been payments, followed by microlending, wealth management, and eventually insurance. Thus whoever owns the payments infrastructure layer has the potential to own the credit opportunity.

²⁸ Cliff Sheng, Jasper Yip, and James Cheng, *fintech in China: Hitting the Moving Target*, Oliver Wyman, 2017

²⁹ *Ibid*



“My eldest is studying history and politics and my youngest has just enrolled in a business degree. My wife and I want them to have more opportunities than we had at their age”

Chijioko, 62. Retired Chief Financial Officer

Quick and decisive action would allow stakeholders to realize Nigeria's fintech potential

Digital financial services have the potential to unlock significant benefits for Nigeria's economy and society. There are multiple opportunities across product ranges and customer segments, especially if the sector can find ways to move beyond addressing known pain points of the banked population and expand the banking pool.

The COVID-19 crisis has heightened the challenges. The investment required to foster innovation in order to meet these challenges and realize fintech's potential in the longer term could be significant, but positive results could be achieved through collaborative action. If all stakeholders in the fintech ecosystem, including government regulators, infrastructure players, private organizations, and providers of capital work together, the country can start to unlock the potential of its fintech assets.

Actions for participants to consider: fintechs and incumbent banks

Unlike traditional banking organizations, the majority of **fintechs** have been in existence less than a decade and few are profitable or have large cash reserves. This could make them more vulnerable to the current crisis, especially as investor funding dries up and revenues decline. In light of these challenges, three strategies for fintechs are worth considering at this time:

1. **Extend your runway**

Fintechs could seek to access support from various intervention funds or seek additional capital from investors to tide them over during this difficult time, ensuring that they are well positioned to take advantage of any growth opportunities. This may also include tactical retrenchments and cost-cutting initiatives in the short term—marketing costs without a clear return on investment (ROI), office space, and long-term expansion plans are areas to explore.

For businesses with limited access to capital, liquidity is the name of the game and requires a ruthless focus on products with a clear path to revenues or clarity on the key indicators that will result in the next round of funding.

2. **Pivot your business model**

Fintechs could adjust their business models to support their income in the crisis, while also adding value to the country's efforts to protect lives and livelihoods. In Europe, for example, fintechs are collaborating with governments and other organizations to deliver aid, supporting consumers with digital solutions to track and claim government backed-funds, and even providing tools to guide SMEs to viable disruption-funding sources. Locally, fintechs could consider pivoting to B2B solutions, supporting SMEs and large corporates with digital solutions for themselves or their customers, and also collaborating with other venture-backed businesses that are providing embedded finance.

3. **Forge smart joint ventures and alliances**

Learnings from the previous economic crises suggest that M&As between fintechs and companies that suddenly find themselves in need of digital capabilities could be a viable outcome for startups that thrive during the crisis. Following the 2008 financial crisis, 82 percent of successful exits were achieved through M&A and leveraged buy-outs.³⁰ This is a time for companies to refine their exit strategy, and focus on elements that a strategic buyer might value, such as IP, talent, licenses, or a strong position in a high-growth location or segment. Although M&A has not been a prominent feature in Nigeria's fintech scene, collaboration and alliances may increase out of necessity during the crisis.

³⁰ Pitchbook McKinsey analysis

The increase in fintech activity in Nigeria has already spurred **incumbent banks** to adopt new strategies to remain competitive and the COVID-19 crisis has only made this imperative more urgent. At this time, banks could consider not just competing in concentrated pools, but collaborating in new, blue-sky spaces with fintechs to grow the pool. We highlight three steps they could consider taking here:

1. Identify new revenue pools

Incumbents could leverage their existing assets to compete with different fintech players and industry peers for customer wallet share, especially in uncontested markets that are opening, such as agent banking, SME lending, and credit at point of commerce. An emerging area to consider is digital wholesale banking, where incumbent banks provide a white-label banking platform for fintech providers, enabling them to expand their offering, especially to the underserved and unbanked SME segment. Indeed, some institutions, like Providus Bank, appear to have made this a focal point, providing wholesale back-end solutions for a number of fintech players. This approach requires an open, solution-oriented mindset on the side of regulatory compliance that allows control teams to work efficiently with fintechs.

2. Reinvent your business model to serve new segments more effectively

To serve these new revenue pools effectively, incumbent Nigerian banks could acquire new talent and tools that will enable them to invest in

middle- and back-end transformations that are data-driven and customer-centric. While banks have done this along specific product lines, the challenge now is to do this consistently and rapidly across all systems, following the example of DBS bank in Singapore, which adopted an agile startup culture and leveraged emerging technologies to remain relevant and grow.³¹ Banks might also need to consider whether this is feasible within the existing bank structure, or if it could be more effectively achieved by carving out a standalone entity.

3. Leverage partnerships and acquisitions to scale operations

The World fintech Report 2020 highlights that for banks to remain appealing and competitive in a shifting landscape, they need to transform into agile and customer-centric organizations by embracing technology, as well as taking on a specialized role, rather than a universal one, such as supplier or aggregator within the new open ecosystem.³² The quickest way to do this will be to build partnerships or form corporate ventures with fintech players, opening up their infrastructure for fintech players to integrate with and drive innovation at this time. Specific solutions could be explored, based on which sectors are most resilient and more likely to be receptive to digital activity.

For banks to remain appealing and competitive in a shifting landscape, they need to transform into agile and customer-centric organizations by embracing technology.

³¹ James Henderson, "How DBS became the world's best bank through digital transformation," CIO, August 27, 2019

³² World Fintech Report 2020, Capgemini Worldwide

Actions for investors to consider

Providers of capital, including private equity (PE) firms, venture capital (VC) companies, and angel investors, have a key role to play in unlocking the potential of fintech in Nigeria. Three elements for them to consider are:

1. **Recalibrate your investment theses for this space**

Just as PE investors have realized that PE in Africa requires a “hands-on” approach with a focus on operational transformation and less “light-touch” financial engineering, so VC investors may wish to review their investment theses for startups in Nigeria.³³ Typically, these focus on capital appreciation potential and could be expanded to include a better understanding of cash flow and cash generation as well as enabling infrastructure. Investors could perhaps also explore actions beyond capital injection to encompass capability injection and active coaching. Above all, investors need to have a realistic perspective on the market headwinds and plan how to adjust their expectations and investment horizon accordingly.

2. **Look beyond startups**

Traditionally, fintech investments have gone to startups, but there are many opportunities beyond startups that could be considered. An offshoot of a financial services incumbent or a non-banking player looking to “add-on” financial services could also be a positive prospect to examine. In addition, investors may want to explore the broader landscape for investments in the enabling infrastructure for fintechs and the digital acceleration of the economy.

3. **Harness deal making expertise to bridge the partnership gap between fintechs and incumbents**

Alliances and partnerships between fintech startups and incumbents have not fared well for various reasons, with a lack of equality between partners often cited; partnership after all suggests a peer-based relationship, which is not always the case. VCs may be able to speak the language of an incumbent and may also be seen as a peer, while being comfortable operating with startups and portfolio companies. This ambidexterity could make it easier for a VC to serve as an honest broker, acquiring controlling stakes in fintechs and brokering relevant joint ventures or partnerships with incumbents, filling a gap in the market and creating value that is more than the sum of its parts.

Providers of capital, including private equity firms, venture capital companies, and angel investors, have a key role to play in unlocking the potential of fintech in Nigeria.

³³ “The Road Ahead for African Private Equity”, May 2018, EMPEA Brief.

Actions for regulators, governments, and development partners to consider

Government regulators, such as the CBN have acted swiftly during the crisis to promote the use of digital financial services. For example, they have collaborated with banks and non-bank payments players to restructure transaction fees and transaction limits to encourage digital payments; relaxed certain financial regulations to allow easier access to digital payment tools, such as allowing the use of a Bank Verification Number (BVN) or registered phone number to open digital accounts; embraced digital payments for the payment of welfare grants; and reviewed capital and currency controls to strike a balance between protecting the economy and creating access to hard currency to stimulate economic activity. More broadly, the CBN's regulatory policies on cashless payments and financial inclusion have all been key factors in creating an enabling environment for fintech in Nigeria.

In the longer term, unlocking the next wave of innovation may require collaboration between multiple regulators—primarily the CBN, the National Communications Commission, the National Insurance Commission (NAICOM), and the Securities and Exchange Commission. We highlight three areas that could significantly impact the fintech ecosystem at this time:

1. Create a clear interface with the regulator for fintech

Regulatory bodies could set up robust structures to support fintechs within the regulatory framework to encourage innovation and experimentation, while managing risk. The Financial Services Innovators Association innovation sandbox launched in December 2019 is a step in the right direction, but more action is required to ensure that it delivers on its promise to stakeholders. This could include fast-tracking product-approval processes to help fintech players to take financial inclusion initiatives to market faster, regular updates, reviews of policies, and streamlining the licensing procedures, among other things. The government could also consider having a council of private-sector leaders to deliberate on their digital priorities—similar to what the

Monetary Authority of Singapore (MAS) has implemented to promote its fintech agenda.³⁴ Having something like this in place could also help the regulator stay on top of technology changes and adapt its policies accordingly.

2. Improve digital infrastructure

Government could improve and support digital infrastructure to enable fintech growth. This could include addressing the cost and quality of data and data access, as well as working across regulatory boundaries for efficient implementation.

3. Accelerate the financial inclusion agenda

Regulators could continue to roll out agent banking to boost financial services penetration across all parts of the country, increase efforts towards building financial literacy, and communicate the benefits of digital solutions. This may include reviewing policies to enhance the rollout of agent banking, particularly in underserved areas in the north, and reviewing charges for agents. Government support for disruptors may also be critical, as fintech players find ways to make products accessible to the mass-market segment. This may require cross-regulatory interaction in order to create new bundled products, such as insurance and savings, for example, or the introduction of micro insurance through new digital platforms. In India, the share of adults with at least one digital financial account has more than doubled since 2011, to 80 percent, thanks in large part to the more than 332 million people who opened mobile-phone-based accounts under the government's Jan-Dhan Yojana mass financial-inclusion program.³⁵ And because its Pradhan Mantri Jan-Dhan Yojana (PMJD) account comes bundled with financial products such as insurance, savings, and micro pensions, among others, this has been a key way to extend financial services to underserved populations.³⁶ The government also has a key role to play in pushing for widespread adoption of and easy registration for digital IDs, which will make it simple for people receiving government relief payments to register for a digital ID.

³⁴ "International Technology Advisory Panel," Monetary Authority of Singapore, [mas.gov.sg](https://www.mas.gov.sg).

³⁵ Pradhan Mantri Jan-Dhan Yojana, November 20, 2018, pmjdy.gov.in/account; Asli Demirgüç-Kunt et al., *The Global Findex Database 2017: Measuring financial inclusion and the fintech revolution*, World Bank, April 2018

³⁶ "PM 'Jan Dhan' Yojana launched; 1.5 crore bank accounts opened in a day," *Economic Times*, August 29, 2014

Donors and development partners could align with the actions of regulators and maximize their impact by making sure their investments are targeted in three important ways:

1. **Target innovation towards addressing development goals and accelerating financial inclusion**

Donors could work with monetary authorities to channel grants towards innovations that address developmental goals. For example, the MAS in association with Banks of Singapore and SingEx, organizes an annual fintech Festival that invites innovative startups to address problem statements contributed by the global fintech community and financial services industry.³⁷

2. **Drive the adoption of digital ID in Nigeria**

Donors could help drive the widespread uptake of digital ID by insisting on making donations only via direct transfer. The COVID-19 crisis has shown that underbanked populations are willing to adopt a digital ID as a means of receiving financial assistance, and this could be capitalized on.

In India, the payment of grants and subsidies is conditional on recipients holding an Aadhaar number (an individual identification number linked to a person's demographic and biometric information) and has been a key incentive in driving digital adoption in that country.³⁸ The same principle can be applied in Nigeria so that, in future, all recipients of donor aid are required to have a digital ID.

3. **Facilitate skills development**

Talent is an essential component of any healthy fintech ecosystem. Development partners could provide support by funding and partnering with universities and other training organizations that develop the scarce skills and tech talent that are needed to fuel the fintech ecosystem. This may extend to supporting and funding necessary curriculum changes, as well as exchange programs, and setting up technology hubs that are free for those with limited access to digital resources in order to leverage digital training.

Development partners could provide support by funding and partnering with universities and other training organizations that develop the scarce skills and tech talent that are needed to fuel the fintech ecosystem.

³⁷ "MAS Unveils 100 Problem Statements For Fintech Festival 2017 Hackcelerator – Infographics," fintech News, Singapore, November 1, 2017

³⁸ Sumit Kumar, "Want to Avail Government Subsidies? Provide Aadhaar and Get it Easily," Paisabazaar, July 5, 2020

A close-up, profile view of a woman with a warm smile, looking down at a mobile payment device. She is wearing a bright yellow, textured, long-sleeved top. The background is a blurred shop interior with shelves and various items.

“I’m busy in the shop seven days a week; I don’t have time to go around from bank to bank looking for better deals on loans and savings”

Ngozi, 45. Mini-market owner, downtown Abia—SME

In conclusion

Despite the challenges posed by the COVID-19 crisis, the Nigerian fintech landscape holds significant potential to grow revenues exponentially in the future. The pandemic is accelerating changes in consumer behaviour, with fintechs positioned to plug the gap left by traditional banks and create new products and services that add value to consumers and support them during this challenging time. Indeed, the rapid response from fintechs, as well as their role in assisting with the disbursement aid to vulnerable communities, has demonstrated this. Fintechs also have a vital role to play in accelerating the recovery of the economy more broadly by, for example, facilitating loans and payments, supporting SMEs, and driving financial inclusion.

A combination of regulatory environment, supportive infrastructure, access to funding, connection to global fintech networks, and the existence of the right talent to push fintechs forward will all be influential in making the necessary adjustments so that the sector can take advantage of tailwinds and fully realize the value at stake.

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Harnessing Nigeria's fintech potential:
How stakeholders could position the
fintech sector for growth now
and beyond the crisis.


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