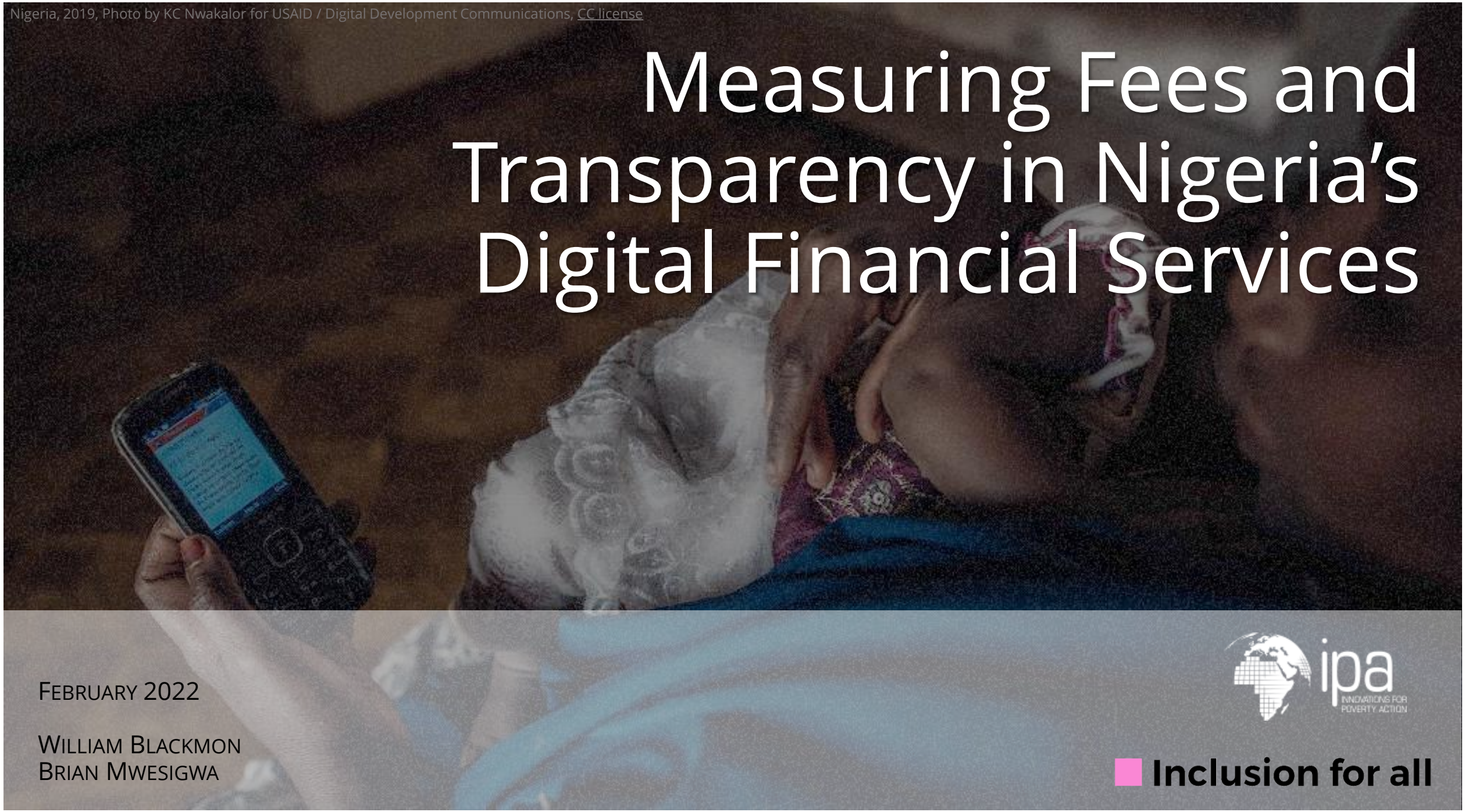


Measuring Fees and Transparency in Nigeria's Digital Financial Services

FEBRUARY 2022

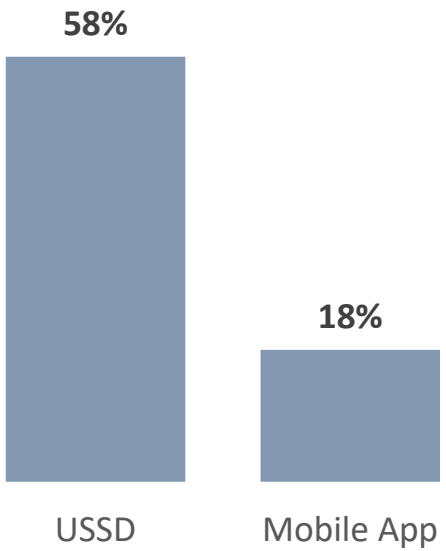
WILLIAM BLACKMON
BRIAN MWESIGWA

ipa
INNOVATIONS FOR POVERTY ACTION

Inclusion for all

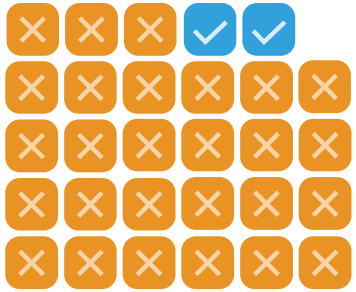
Key takeaways

Product Reliability



Failure rates for financial transactions conducted are high. Many products were unreliable, with high transaction failure rates, especially for transactions conducted via USSD.

Pricing Transparency



It is difficult and costly for consumers to find accurate pricing information. Of 29 providers we examined, only 2 listed their transaction fees on their web page. Even when we called customer care to determine transaction fees, these stated fees were more likely to be incorrect or inconsistent with the true fees charged for transactions.

Regulatory Compliance



Consumers regularly pay fees exceeding caps set by the Central Bank of Nigeria (CBN). Despite a mandate for free account opening, more than half of providers we audited charged a mandatory "ATM fee" that was necessary to begin using the account. 11 percent of transfers conducted via USSD also exceeded CBN fee caps. When we received consistent prices from customer care representatives, 10 percent of their stated fees exceeded price caps.

Table of contents

04 Background

07 Study Design

10 Results

- 12 *Product Reliability*
- 15 *Pricing Transparency*
- 21 *Regulatory Compliance*

28 Recommendations



Photo by Will Boase

Background



Nigeria, 2019, Photo by KC Nwakalor for USAID / Digital Development Communications, CC license

Use of Digital Financial Services is expanding quickly

- Nigeria's Digital Financial Services ecosystem has evolved rapidly over the last decade. Mobile connectivity is expanded, and the payments ecosystem has become increasingly digital.
- The onset of the COVID-19 pandemic further accelerated the use of digital financial services, with year-on-year growth in transaction volumes of 108 percent.[1]
- From 2019 to 2020, use of agent banking networks grew by 19 percent,[2] as customers sought alternatives to banking halls while lockdowns were in place, and then maintained their use of the channel when the restrictions were lifted.

[1] Nigerian Inter Bank Settlement System (NIBBS) data; [2] 2020 EFInA Access to Finance Survey

Financial inclusion is improving only slowly, and high and hidden costs pose barriers

- Between 2018 and 2020, financial exclusion decreased only slightly, from 37 percent in 2018 to 36 percent in 2020.
- High cost of financial services reduce take-up for price sensitive consumers. Lack of transparency on product pricing reduces trust between customers and service providers which can limit continued usage of financial products.
- The Central Bank of Nigeria recognizes the importance of product pricing on financial inclusion outcomes and reviewed pricing guidelines in 2019, issuing lowered pricing caps for electronic banking transaction effective January 2020.
- This study sought to understand the ease of accessing accurate price information from providers as well as their levels of compliance with the revised pricing guidelines.



Study design

Photo by IPA

Study design

Transaction audit

A team of auditors employed by Innovations for Poverty Action opened accounts with 29 providers and carried out a set of transactions with each provider, recording the account balance before and after each transaction.

By comparing the balances before and after each transaction, we determined the true total cost incurred for completing each transaction.

We attempted a total of 895 transactions during this audit.

Customer care inquiries

Prices as stated by financial service providers were collected via up to four channels:

- Websites*
- Customer care phone lines
- Facebook accounts
- WhatsApp accounts

For each provider, we attempted to reach customer care through each channel twice with two different enumerators to check the consistency of the information received from customer care.

**In most cases, providers' websites did not have pages listing their fees, so information was collected from websites by interacting with a customer care representative through a "chat" feature.*

Review of regulations

We reviewed the following guidelines that set price caps for digital financial transactions:

- CBN's Guide to Charges by Banks, Other Financial and Non-Bank Financial Institutions (effective January 1, 2020)
- A joint statement by CBN and the Nigerian Communications Commission (NCC) regarding pricing of Unstructured Supplementary Service Data (USSD) services (March 16, 2021)
- CBN's circular introducing a tiered set of Know Your Customer requirements (January 18, 2013)

Study design

Provider selection

We included 19 deposit money banks and 10 mobile money operators.

CBN regulations cover these providers, as well as microfinance banks (MFBs). However, because of the limited geographic reach of many MFBs, we were unable to open accounts with many of these providers so excluded them from this study.

We excluded providers that we attempted to open accounts and conduct transactions with but were unsuccessful despite multiple attempts to reach their representatives.

For each provider, we chose the lowest tier product available that offered USSD and mobile app functionality and was not restricted to certain types of consumers (e.g., student accounts).

Scenario selection

We selected typical transactions conducted by bottom-of-the-pyramid consumers and allowed us to assess compliance with two regulatory bands.

SCENARIO	VALUE (NAIRA)	CHANNEL
Account opening	N/A	In-person
Balance check	N/A	USSD
On-network transfer	1,000 and 6,000	Mobile application
On-network transfer	1,000 and 6,000	USSD
Off-network transfer	1,000 and 6,000	Mobile application
Off-network transfer	1,000 and 6,000	USSD

Results

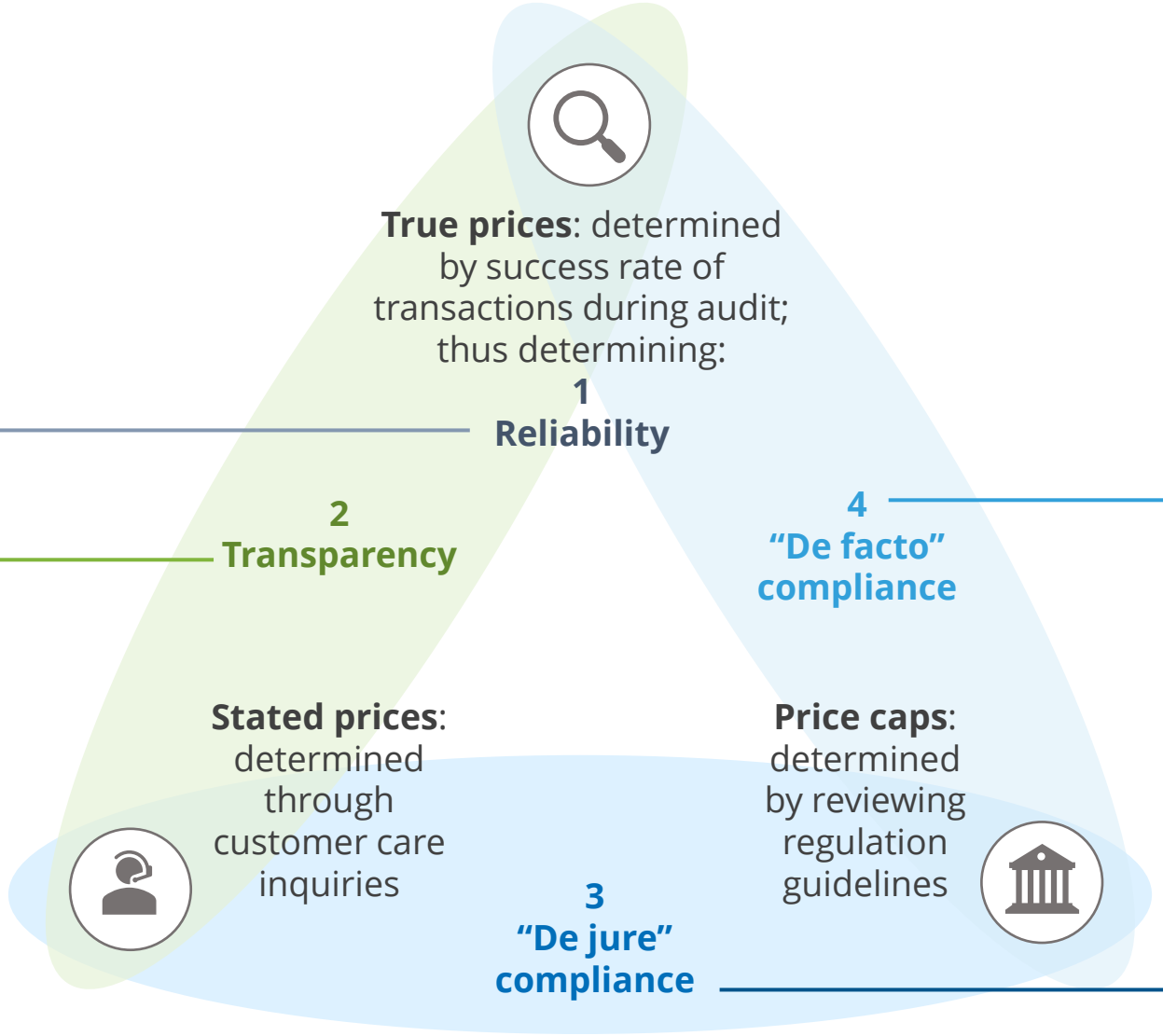


Mobile money agent, 2016, photo courtesy of Fiona Graham / WorldRemit, Public Domain

Results framework

Reliability: measuring the difficulty of conducting transactions during the audit exercise.

Transparency: measuring the difficulty of collecting price information from customer care and assessing accuracy of that information by comparing it with true prices observed during the audit exercise.



"De facto" compliance: by comparing true prices observed during the audit exercise with price caps set by CBN, we measured "de facto" compliance, or compliance in practice.

"De jure" compliance: by comparing stated prices provided by financial service providers with price caps set by CBN, we measured " de jure" compliance, or official compliance

Product Reliability

1

Product reliability

Product failures cause users to waste time attempting transactions, may temporarily prevent users from accessing their funds, and may degrade trust in digital finance services, potentially limiting further use of beneficial financial products. Improved product reliability would directly benefit consumers and has the potential to improve financial inclusion outcomes.

Definition: We measured product reliability by calculating the success rate of various types of transactions. Transactions can fail for a variety of reasons: temporarily technical issues (e.g., fluctuations in network connectivity), longer-term issues (e.g., if a mobile application is undergoing maintenance), or because a provider does not offer a particular service. Our reliability rates excluded attempted transactions that were not possible because a provider simply does not offer a particular service.

Results: We found that average reliability is quite low with significant variation across providers and channels used. Overall, just 60 percent of our attempted transactions were successfully completed. Transactions conducted via USSD and mobile money transactions were found to be significantly less reliable than transactions conducted using a mobile application or with deposit money banks, respectively.

Reliability varies by channel, transaction, and provider

We attempted a total of 895 transactions, of which 102 were impossible because the provider did not offer the service. Of the remaining transactions, 60 percent were successfully completed, and 40 percent failed.

Channel

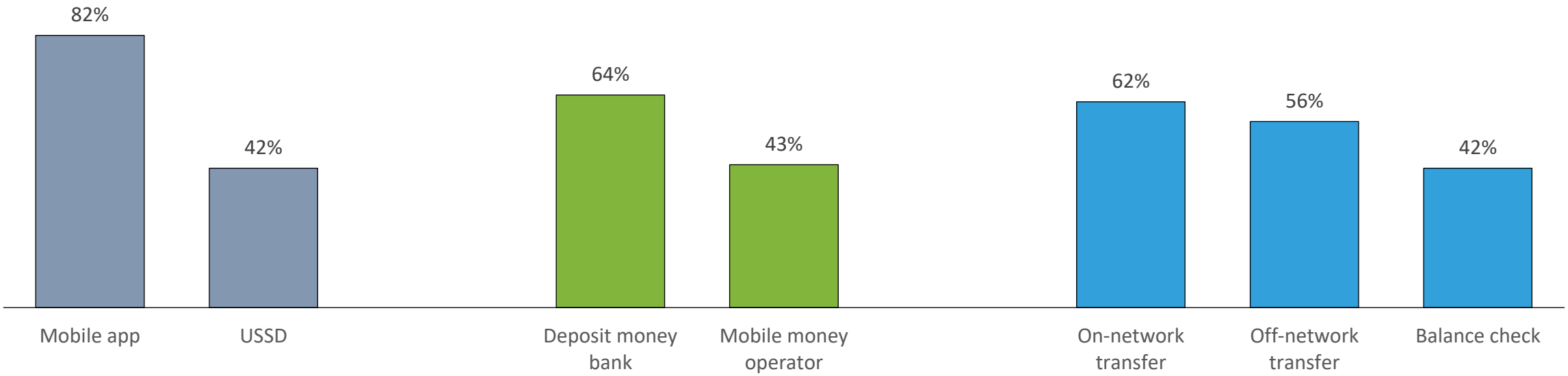
We found transactions conducted by mobile application have nearly double the reliability rate compared with USSD transactions.

Provider type

Transactions with deposit money banks were more than 20 percentage points more likely to succeed than mobile money transactions.

Transaction type

Simple balance checks (always conducted via USSD) were less reliable than on- or off-network transfers.



Pricing Transparency

2

Pricing transparency

Limited pricing transparency restricts consumers ability to make informed choices about the products and providers they use which can restrict competition. Consumers are also directly affected if they waste time or money seeking out difficult-to-find pricing information.

Definition: We measured transparency by comparing fees observed by our auditors with fees provided by customer service representatives on each of these platforms: (1) Facebook, (2) Providers' websites, (3) WhatsApp, and (4) Customer care phone lines. This enabled us to measure both the ease of access pricing information as well as the accuracy of this information.

Results: We found that providers often are unable to share fee information for at least some types of transactions through their customer care platforms, and even when they do, this information is likely to be inconsistent. In 39 percent of cases when comparing across all channels, the most likely outcome was for us to receive inconsistent pricing information from different customer care representatives.

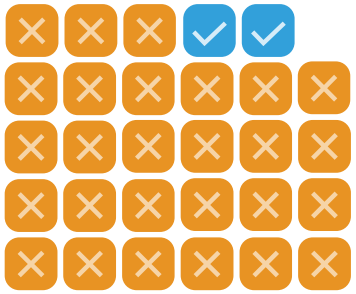
Even when we received consistent information from customer care, it was more likely to be inconsistent with prices observed during our audit than to match with these prices.

We also found that gathering information from customer care can be costly in terms of time and money

Ease of accessing customer care

Accessing information from customer care representatives was a slow and difficult process.

Most providers don't list their prices on their websites and contacting customer care could take hours. While making a phone call to customer care was the quickest way to get pricing information, it often came at a cost higher than the fees we were inquiring about: only 14 percent of providers offered toll free lines, and the median airtime charge for non-toll-free lines was 123 Naira.



2 of **29**

Number of providers where we were able to find a **price list on their website**

Customer care response times (total conversation length):

Phone call **17 minutes**

Website "chats" **60 minutes**

WhatsApp **240 minutes**

Facebook **291 minutes**

Phone call costs

14%

Percentage of providers offering **toll-free customer care lines**

123

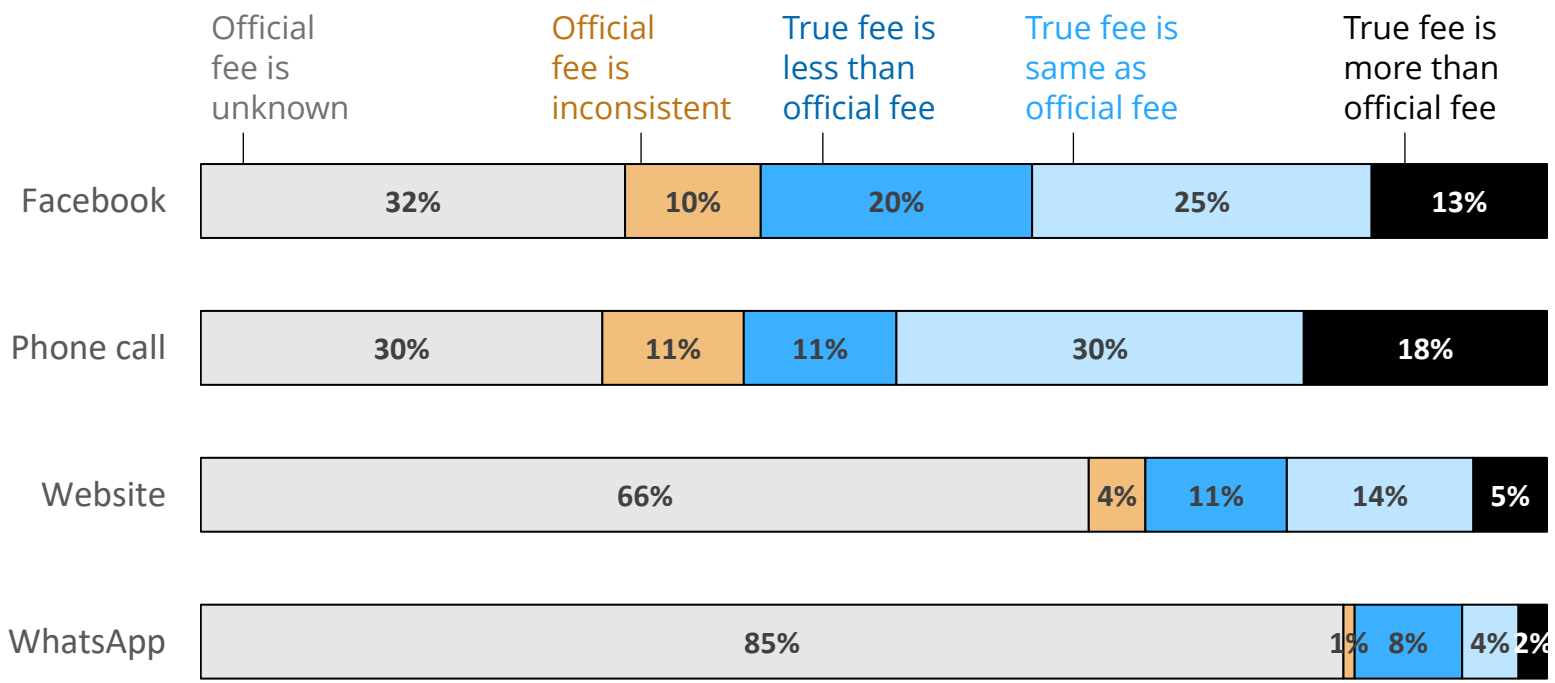
Naira

Median total **airtime charge** for customer care calls (to non-toll-free lines)

Official price accuracy by channel

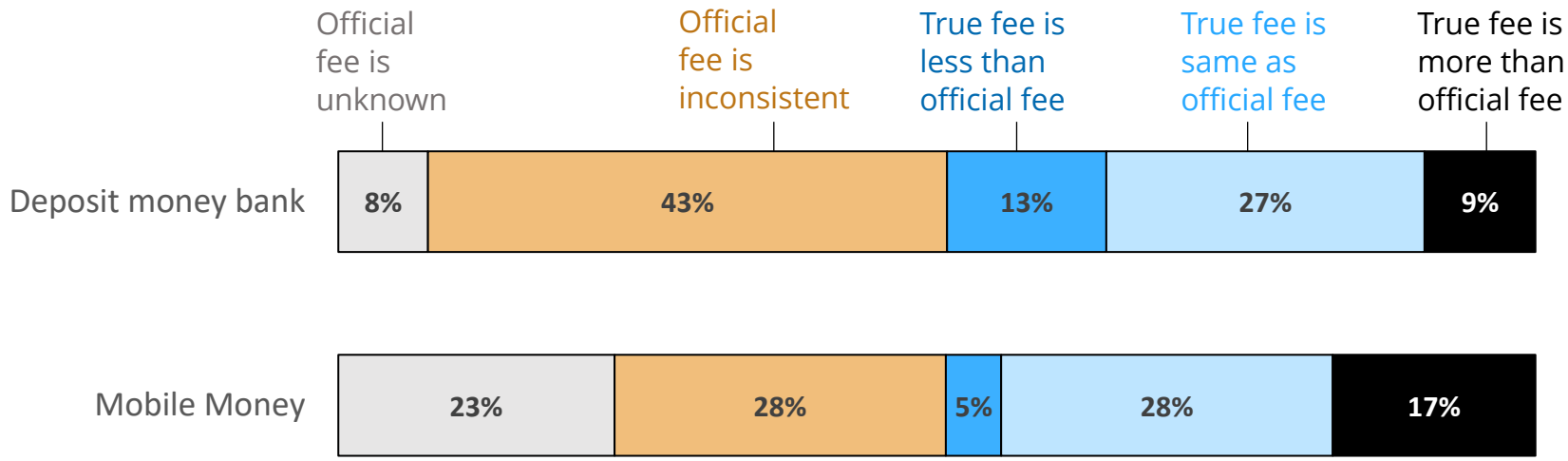
We were least successful in collecting price information from provider's WhatsApp accounts (more than 8 in 10 attempts were unsuccessful) and websites (in two thirds of cases we found no information). We were more successful by phone and Facebook, but even for these channels we collected no information for 1 in 3 providers.

Across all channels, when we did collect information, it was more likely to be inconsistent or wrong than to match with real prices collected during our audit.



Official pricing accuracy by provider type

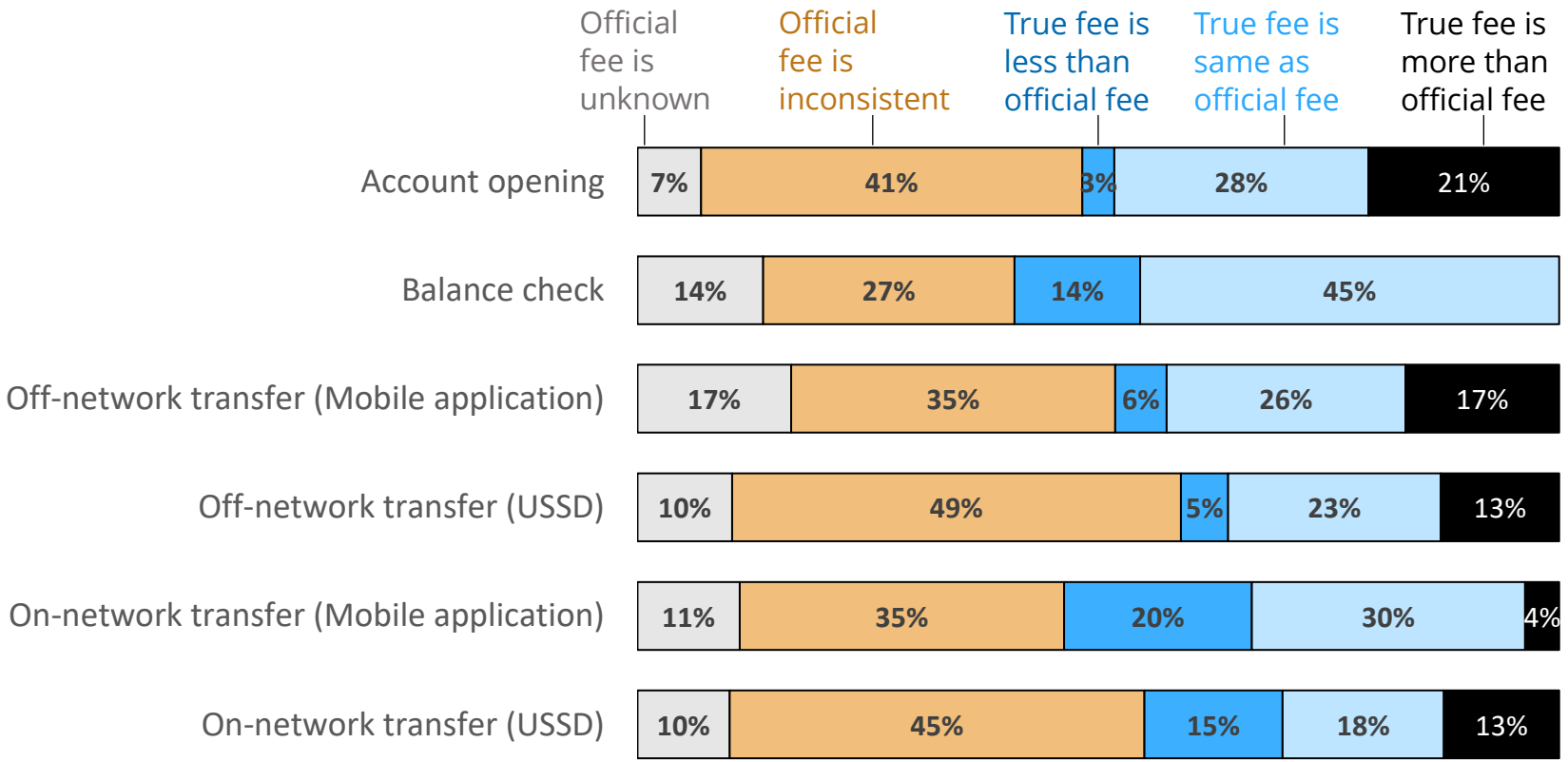
Deposit money banks provided more inconsistent fee information than mobile money providers, but mobile money providers were more likely to provide no fee information at all. In only about 3 out of 10 cases did we see true prices matching fees provided by customer care for both mobile money providers and deposit money banks.



Note: pricing accuracy is more likely to be inconsistent and less likely to be unknown when presenting results by provider type or transaction type than when presenting results by channel. When presenting results by channel, we compare results between two enumerators who reached out to each provider on a given channel. When presenting results by provider type or transaction type, we compare results from eight enumerators' attempts to reach customer care (two enumerators each of four channels). By construction, additional attempts will lead to lower "unknown" rates and high "inconsistent" rates.

Official pricing accuracy by transaction type

Across all transaction types, less than 50 percent of customer care representatives provided a fee that was the same as the fee our auditors observed. For some transactions as many as one in five customer care representatives provided fees lower than the true fees we incurred.



Regulatory Compliance



“De jure” compliance



“De facto” compliance

Regulatory compliance

Lack of compliance with CBN pricing policies limits the effectiveness of regulations that aim to make use of digital financial products affordable and promote financial inclusion goals.

We measured regulatory compliance by comparing price caps with two measurements of providers' prices. We separate our discussion of compliance into two categories:

DEFINITIONS

De jure compliance: By comparing price caps with providers' stated prices, we can determine providers' officially stated (or de jure) levels of compliance with pricing regulations

De facto compliance: By comparing price caps with true prices, we can determine the level of compliance in practice (or de facto)

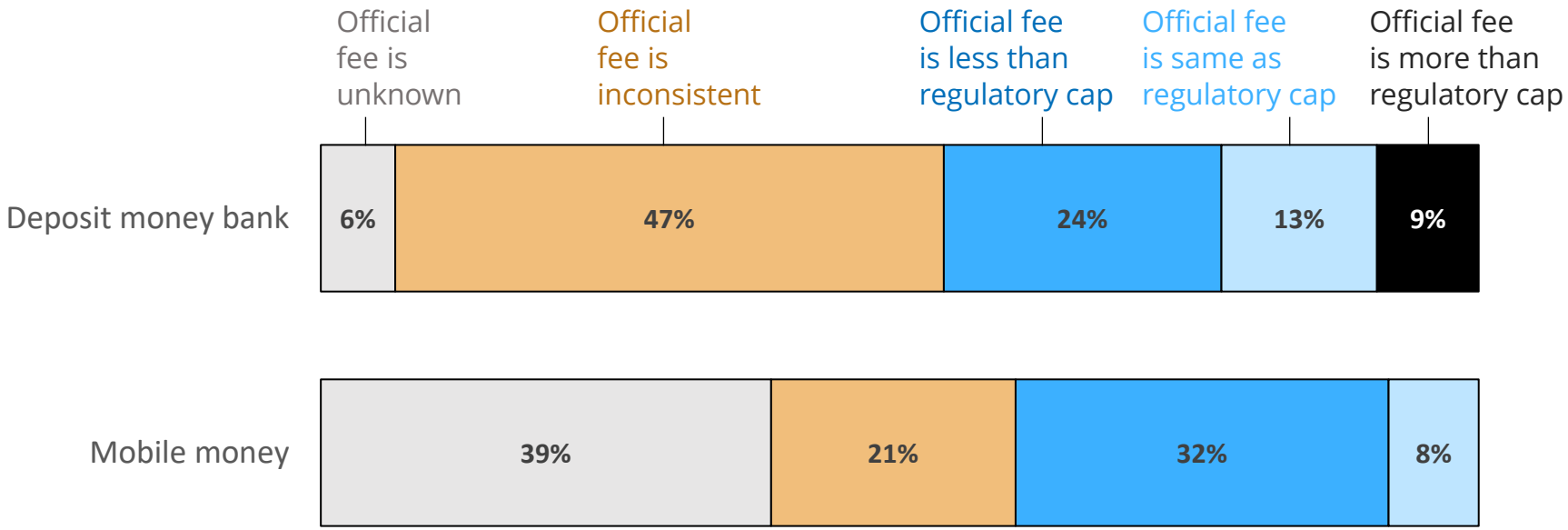
RESULTS

De jure compliance: Because providers often didn't share pricing information or gave inconsistent information, checking de jure compliance with regulatory caps was challenging. Where we could measure compliance, fees were typically at or below price caps, though some providers stated fees in excess of regulatory caps, particularly for deposit money banks (which have much lower price caps than mobile money operators).

De facto compliance: We found that gaps in de facto compliance were concentrated around particular scenarios (account opening and USSD transfers) and, similar to de jure compliance, compliance was lowest among deposit money banks. CBN and NCC place a limit on charges for using USSD menus to complete transactions; we found that these limits are often not followed.

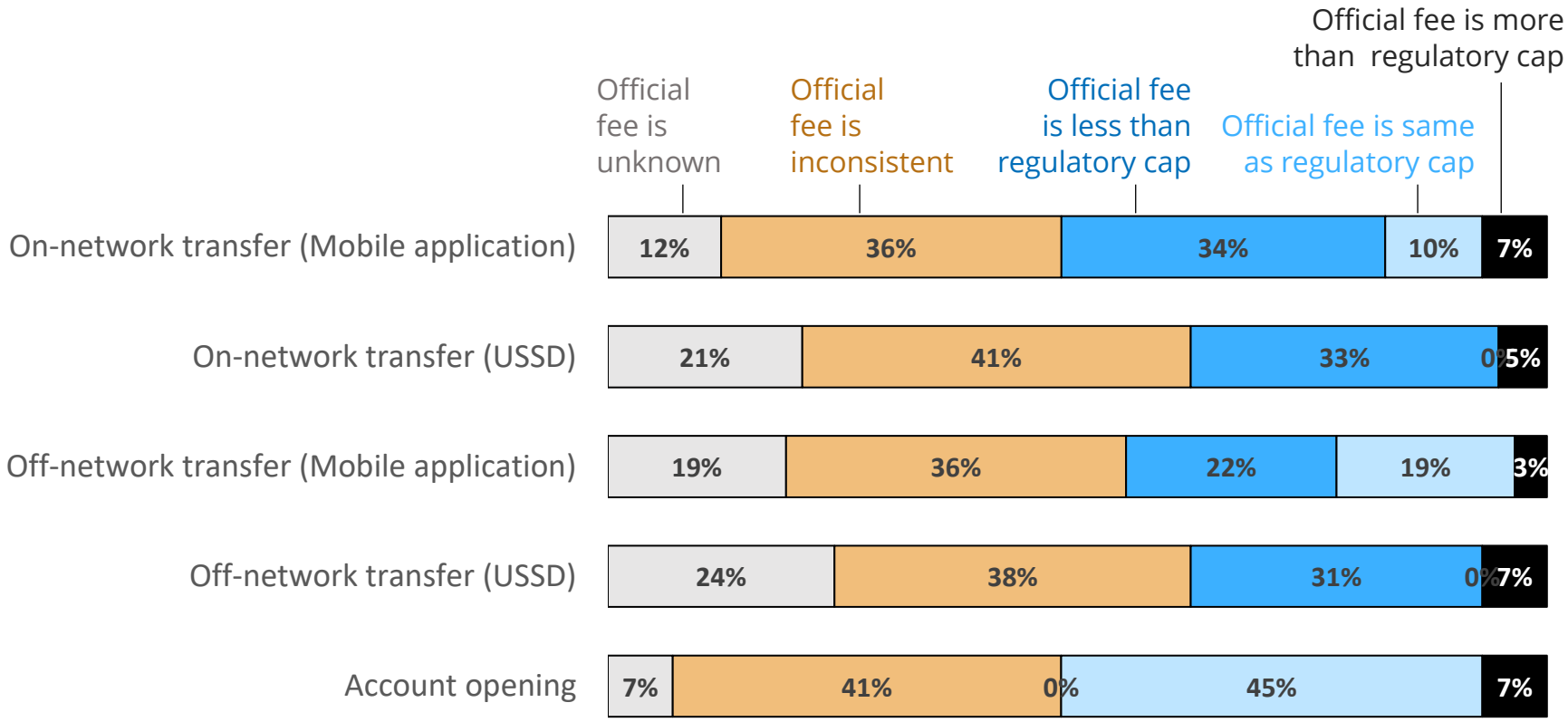
De jure compliance by provider type

All mobile money provider customer service representatives reported fees that complied with pricing regulations, while 9 percent of deposit money bank representatives provided our staff with prices in excess of pricing caps.



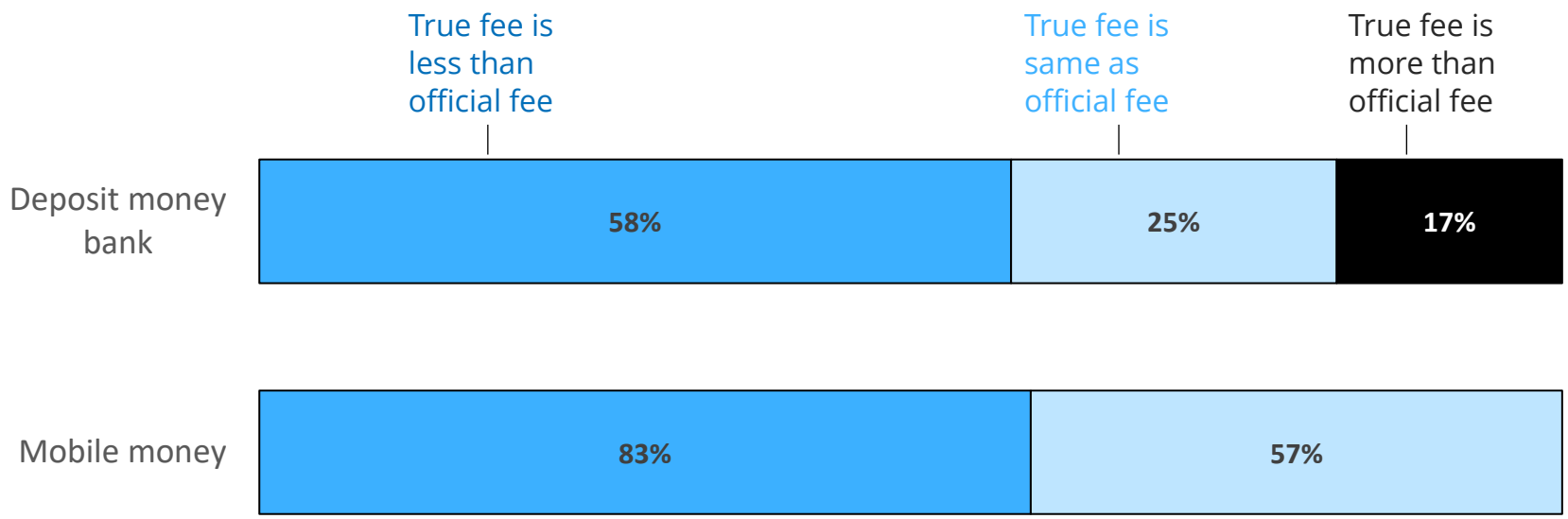
De jure compliance by transaction type

For most transaction types, more than half the time we either received inconsistent information about the price of the transaction or received no information at all. Depending on the transaction type, between 3–7 percent of providers stated fees in excess of pricing caps set by regulators.



De facto compliance by provider type

All mobile money transactions incurred fees less than or equal to the regulatory cap. In contrast, 17 percent of transactions with deposit money banks were in excess of regulatory limits.

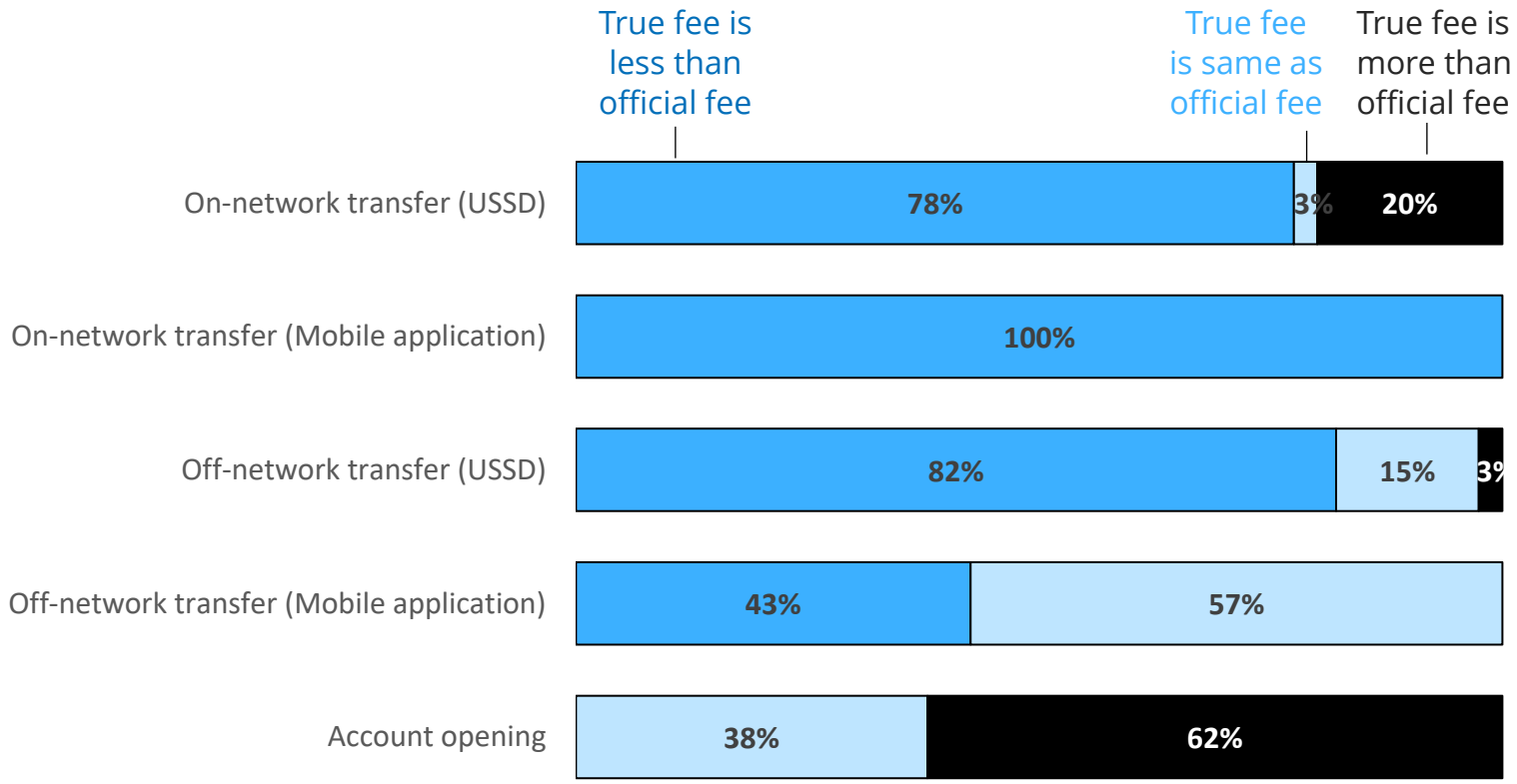


De facto compliance by transaction type

In practice, compliance with pricing caps is quite good except for two types of scenarios:

Account opening: Pricing regulations state that account opening should be free. In our audits, no provider charged an explicit account opening fee. However, 62 percent of providers charged an "ATM card fee." When ATM cards are necessary for the use of these accounts, we consider these ATM card fees as functionally equivalent to an account opening fee.

USSD transactions: We conducted identical transactions via USSD and using providers' mobile applications. No transactions carried out using providers' mobile applications exceeded price caps, but 3 percent of off-network transfers and 20 percent of on-network transfers exceeded price caps.



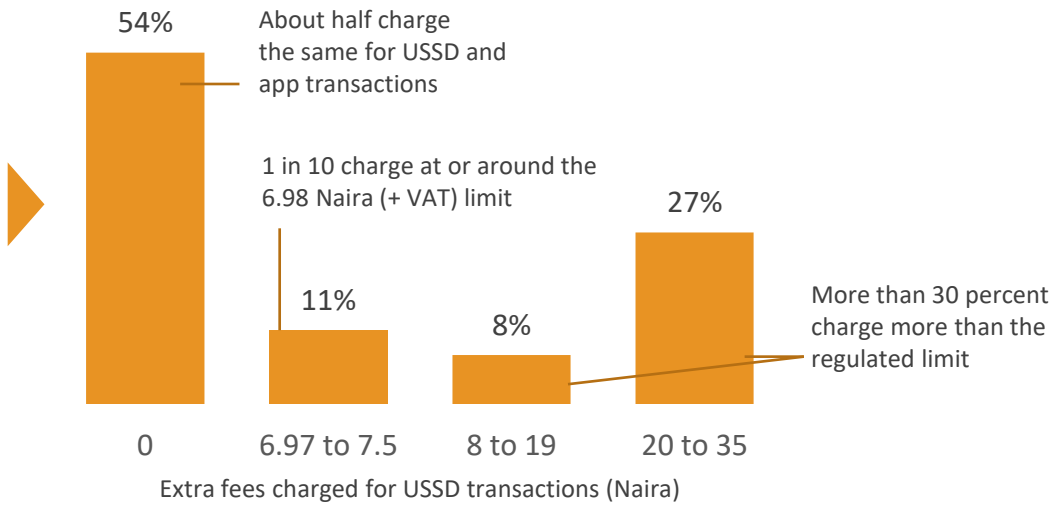
De facto compliance: USSD pricing

In a 2021 joint statement by CBN and NCC, providers were instructed that USSD transaction could incur an extra flat fee of up to 6.98 Naira (plus VAT).

To assess compliance with this directive, we compared identical transactions carried out with the same provider, one via the USSD menu and the other via a mobile application.

While more than half charged no USSD premium and 11 percent charged approximately the regulated 7 Naira extra, more than 30 percent of providers charged a premium higher than the regulated 7 Naira.

Extra fees charged to customers when using the USSD channel, beyond what was charged for an identical transaction carried out using a mobile application.



Airtime charges

CBN and NCC's joint statement regarding USSD fees notes that the extra fee "will be collected on behalf of MNOs directly from customers' bank accounts." We interpret this to mean that mobile network operators may not directly charge customers additional fees by making deductions from customers airtime balances. While this was not the focus of our study, we found multiple instances where this rule was not followed – airtime was deducted by telcos when we made USSD transactions.



Recommendations

Photo by IPA

Recommendations for regulators



Conduct periodic transaction audits to improve compliance and address noncompliance

Audit exercises like this one are relatively straightforward and low cost to implement. Audits of leading providers could be conducted on an annual basis to ensure compliance. Regulators could alternatively collect transaction data from providers and use this data to audit fees.



Require providers to register fee schedules with regulators and update when pricing changes are made

Registering fee schedules allows regulators to track pricing and regulatory compliance on an ongoing basis but requires low effort from both providers and regulators.



Require providers to submit a website address where their fee schedule is listed and require links to this page be prominently displayed in mobile applications and shared via SMS/USSD during product enrollment

Making fee schedules easily accessible to consumers over the internet is an easy way to improve pricing transparency. Providers can be held accountable by asking them to submit this information to regulators.

Recommendations for providers



Conduct periodic internal audits of transactions and customer care inquiries

Internal audits can be used to proactively identify areas where pricing compliance and transparency can be improved.



Make price schedules easy to find and understand

Pricing transparency improves the user experience. One easy way to improve consumers' access to pricing information is to create an easy to find, clear, and simple web page where all consumer prices are listed. User testing can ensure formats are clear and easy to understand in print and online.



Make customer care lines toll free and improve customer care representatives' training

Customer care lines are a primary source for consumers to access information and support, particularly for those without access to the internet. The high monetary cost of accessing customer care puts this channel out of reach for many consumers. Additionally, customer care representatives should receive appropriate periodic training to ensure they are equipped to accurately respond to consumer inquires about product pricing.



ipa
INNOVATIONS FOR
POVERTY ACTION

Inclusion for all

financialinclusion@poverty-action.org

www.inclusion-for-all.org