

Nigeria's mobile money system has a dark side even though it's convenient: Study explores the risks

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Financial services play [vital roles](#) in supporting economic activities. In Nigeria, though, a significant number of people [don't have access](#) to

essential banking services.

A 2021 World Bank report shows that only [45% of Nigerian adults](#) have bank accounts. Another [2021 study](#) shows that nearly one in two adults don't use any formal financial services. And more than one in three Nigerian adults are completely financially excluded. To be financially excluded means that such adults do not have or use any financial products or services—whether formal or informal.

They can't enjoy all the advantages that come with being part of the formal financial system—like keeping their money safe and using credit.

Some turn to alternative systems such as [mobile money](#) to meet their financial needs.

Mobile money can simply be described as a mobile human ATM. This is where an individual operates a point of sales machine on a street or in a shop and people go to them to deposit money or withdraw money. The operators charge customers for this informal banking service.

This service will often appeal to those without access to [internet banking](#), those who do not have ATM or bank branches around them. It is not just about having bank accounts, but about accessing the money in the account. While withdrawing from an ATM may be free, mobile money operators may charge N100 (14 US cents) for withdrawing N5000 (US\$6.79).

By November 2022, [1.6 million point of sales machines](#) were in use across Nigeria. There were [155,000 in 2017](#). Mobile money operators also have an [association](#), the Association of Mobile Money and Bank Agents in Nigeria. [At the end of February 2023](#), a total of 113.53 million transactions valued at N883.45 billion (US\$1.076 billion) was done via point of sale machines, as against the 96.35 million transactions valued at

N807.16 billion (US\$984 million) recorded in January this year.

Mobile money has its benefits, but it's also important to be aware of the potential risks. The point is to make sure that financial transactions are safe and consumers are protected from fraud.

In [our research](#), we examined the "dark side" of mobile money in Nigeria. We got valuable insights from customers, agents and financial technology (fintech) developers. We found that the mobile money system presents challenges of fraud, insecurity, high costs and poor infrastructure.

Mobile money risks and challenges

Our objective was to uncover any risks and challenges associated with these [business operations](#), as well as the implications for stakeholders. We interviewed 41 financially vulnerable consumers ranging from 20 to 70 years old, 19 point of sale operators aged 20 to 49, and 11 fintech developers.

The study revealed several key issues associated with mobile money operations.

Fraudulent activities

Consumers who use point of sales machines acknowledge they are vulnerable when interacting with operators. They know that their card details may be compromised since they are not engaging with traditional banks. But they weigh this against the benefits and convenience, and they exercise caution.

Developers also acknowledge that individuals might fraudulently try to

register as operators. They would submit fake documents, thinking the developers would not do a thorough check. This highlights the need for robust security measures.

Lack of security

Operators are aware of the risks they face because they have less robust security measures than traditional banks. They try to avoid the risks by, for example, operating during daylight hours, working in shops with burglar proofing and installing CCTV systems.

High transaction costs

Developers deduct a fee from each transaction, and operators charge consumers for using their services. Though the Central Bank of Nigeria has [said](#) that the maximum total fee should be 1.25% of the transaction value, subject to a maximum of N2,000.00 (US\$2.44), consumers have reported instances where agents charge more.

For example, during the recent [naira scarcity](#), some operators [charged 30% fees](#) for transactions.

There is little or no monitoring of the operators, especially in areas where there is little or no competition.

Poor infrastructure

Poor infrastructure remains a major challenge for the [financial services](#) system in Nigeria. Internet connections and servers are often inadequate, which can impede the smooth operation of mobile money transactions. It can be difficult to process transactions. In some cases, agents have switched developers due to the lack of a reliable support system, which

had a negative impact on their sales and resulted in customer losses.

Solutions

Mobile money has had a positive impact in Nigeria, particularly for individuals and businesses in areas with limited access to traditional banking services. Mobile money systems have effectively replaced cash and traditional [bank accounts](#), enabling financial inclusion and improving the financial well-being of customers. The financial inclusion rate increased from 56.8% in 2016 to 63.2% in 2018.

But it is important to recognize that these systems are not without challenges.

One aspect that needs attention is security. Customers, especially those who are skeptical about the technology and the agents, prioritize the security of their financial activities. Robust security measures, such as secure encryption, authentication mechanisms and fraud detection systems, are essential to build trust and alleviate concerns. Developers are actively working to implement measures that can detect and prevent fraudulent activities, ensuring a more secure environment for mobile money transactions.

Other steps include increasing transparency, and providing education and awareness programs to ensure safe and responsible use of mobile money services.

Compliance with regulatory requirements is crucial for maintaining the legality and trustworthiness of these services. Developers must also navigate complex regulatory frameworks to align their operations with [government guidelines and policies](#). The fintech industry in Nigeria and the increasing point of sale agents, pose challenges in monitoring compliance. Regulators need to catch up with growing trends and

provide policies that support and drive financial inclusion. They must also do spotchecks to identify those not complying with the regulations.

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