EFInA Quarterly Review

(October to December 2014)

1 Global Economy

1.1 Oil Prices

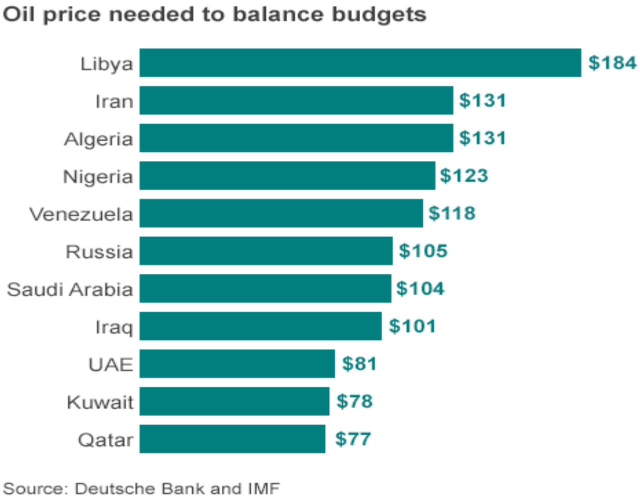
From 2010 until mid-2014, world oil prices had been fairly stable, at around $110 a barrel. But since June 2014 prices have more than halved. Brent crude oil has dipped to below $50 a barrel for the first time since May 2009 and US crude has also fallen below $50 a barrel. The reasons for this decline are twofold - weak demand in many countries due to insipid economic growth, coupled with surging US production. Added to this is the fact that OPEC is determined not to cut production as a way to prop up prices.

Russia is one of the world's largest oil producers, and its interest rate hike to 17% in support of its troubled Rouble underscores how heavily its economy depends on energy revenues, with oil and gas accounting for 70% of export incomes. Russia loses about $2bn in revenues for every dollar fall in the oil price, and the World Bank has warned that Russia's economy would shrink by at least 0.7% in 2015 if oil prices do not recover. Despite this, Russia has confirmed it will not cut production to shore up oil prices. Falling oil prices, coupled with sanctions from the West over Russia's support for separatists in eastern Ukraine have hit the country hard. The government has cut its growth forecast for 2015, predicting that the economy will go into recession.

Venezuela is one of the world's largest oil exporters, but due to economic mismanagement it was already finding it difficult to pay its way even before the oil price started falling. Inflation is running at about 60%, and the economy is teetering on the brink of recession. The need for spending cuts is clear, but the government faces difficult choices. The country already has some of the world's cheapest petrol prices - fuel subsidies cost Venezuela about $12.5bn a year, but President Maduro has ruled out subsidy cuts and higher petrol prices.

Saudi Arabia, the world's largest oil exporter and OPEC's most influential member, could support global oil prices by cutting back its own production, but there is little sign it wants to do this. There could be two reasons - to try to instil some discipline among fellow OPEC oil producers, and perhaps to put the US's burgeoning shale oil and gas industry under pressure. Although Saudi Arabia needs oil prices to be around $85 in the longer term, it has deep pockets with reserves of about $700bn,- so can withstand lower prices for some time. If a period of lower prices were to force some higher cost producers to shut down, then Saudi Arabia might hope to pick up market share in the longer run. Alongside Saudi Arabia, Gulf producers such as the United Arab Emirates and Kuwait have also amassed considerable foreign reserves, which means that they could run deficits for several years if necessary.

Other OPEC members such as Iran, Iraq and Nigeria, with greater domestic budgetary demands because of their large population in relation to their oil revenues, have less room for manoeuvre. They have combined foreign reserves of less than $200bn, and are already under pressure from increased US competition. Nigeria, which is Africa's biggest oil producer, has seen growth in the rest of its economy but despite this it remains heavily oil-dependent. Energy sales account for up to 80% of all government revenue and more than 90% of the country's exports.



The war in Syria and Iraq has also seen ISIS, or Islamic State, capturing oil wells. It is estimated that ISIS is making about $3m a day through black market sales- and undercutting market prices by selling at a significant discount of around $30 to $60 a barrel.

US domestic oil production has boomed due to fracking. It is estimated that US oil production levels are at their highest in almost 30 years. It is this growth in US energy production, where gas and oil is extracted from shale formations using hydraulic fracturing (or fracking) that has been one of the main drivers of lower oil prices.

Growth in the European Union remains weak. With Europe's flagging economies characterised by low inflation and weak growth, any benefits of lower prices would be welcomed by beleaguered governments. It is estimated that a 10% fall in oil prices should lead to a 0.1% increase in economic output. In general, consumers benefit through lower energy prices.

China, which is set to become the largest net importer of oil, should gain from falling prices. However, lower oil prices won't fully offset the far wider effects of a slowing economy. Japan imports nearly all of the oil it uses. But lower prices are a mixed blessing because high energy prices had helped to push inflation higher, which has been a key part of Japanese Prime Minister Shinzo Abe's growth strategy to combat deflation. India imports 75% of its oil, and analysts say falling oil prices will ease its current account deficit. At the same time, the cost of India's fuel subsidies could fall by $2.5bn this year, but only if oil prices stay low.

1.2 Peer to Peer Lending

It can take a couple of weeks for potential borrowers to secure a loan via Lending Club, a ‘peer-to-peer’ platform that matches them up with savers seeking to invest spare cash. The company took only five hours to find enough backers to subscribe to its stock offering, valuing it at around $5.4 billion. The growth of ‘marketplace lenders’, as the online nearly-banks now prefer to be called, has been exponential. Started in 2007, Lending Club is the biggest, facilitating over $1 billion in loans per quarter. That remains tiny compared to the $3 trillion market for personal debt in America. But its rapid progress, loans have roughly doubled every year, has fuelled discussions of big banks and credit-card issuers being ‘disrupted’.

A confluence of trends has boosted Lending Club and its peers. Demand for loans from creditworthy borrowers has held up even as banks have retrenched in the face of mounting regulations. There is no shortage of willing lenders: once provided mainly by the internet-browsing public, three-quarters of loans are now offered by yield-hungry institutional investors such as hedge funds. Technology has also made the process of cutting out the middleman much easier, for example by gauging the creditworthiness of potential borrowers through their musings on social media. Doing banking without the expensive bits of the industry such as branches, creaking IT systems, and so on, means that peer-to-peer loans offer lower rates, reflecting their reduced costs. Most borrowers are refinancing their credit card debt, swapping a loan on which they paid 16-18% for 12% or so, at Lending Club. The company's focus has been on smaller loans (up to $35,000) to individuals with decent credit ratings, although it is now also catering to businesses.

Peer-to-peer lenders use credit scores as a starting point to establish a borrower's creditworthiness in the same way as banks and credit card companies do. But they say their snazzy credit scoring algorithms will enable them to weed out probable defaulters better than conventional financial firms do, leading to smaller losses. That is plausible but unproven, giving out loans in good times is far easier than getting it back in a recession, as seasoned bankers know.

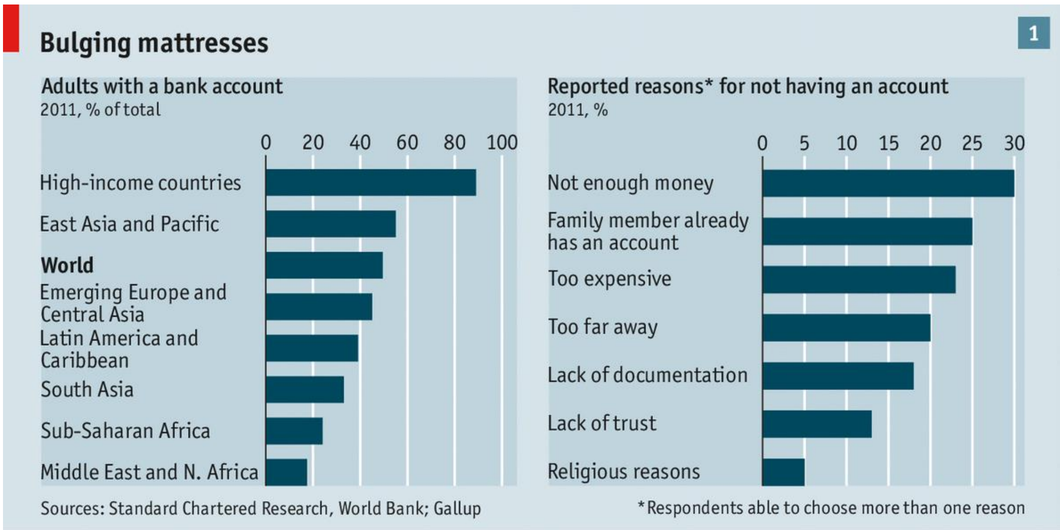
The most appealing feature of Lending Club for those buying its shares may be that it is not a bank. It makes its money by charging fees to both borrowers and lenders but does not take any risk itself. If borrowers do not repay their loans, those who advanced them the money do not expect to be repaid in full, unlike bank depositors. There is no government guarantee, explicit or otherwise. Sustained future profitability will depend on the accuracy of the premise that banks are no better at gauging a customer's creditworthiness than this new breed of newcomers and their crowd-sourced insights. If that proves to be more than boom-era bluster, banking deserves to be disrupted.

1.3 Financial Inclusion

Defenders of traditional banking say that it brings the unbanked into the financial mainstream by getting them accustomed to using banks rather than informal services. However, it is expensive and inefficient.

Globally, 2.5 billion adults more than half the world's adult population lack bank accounts. The widespread adoption of mobile phones, as well as advances in cloud-computing and data-crunching technology, have allowed firms to come up with ways of lowering the cost of lending money to, and moving and storing it for these billions. These innovations are spawning an array of other financial services, ranging from mobile wallets to crop insurance and new types of microloans.

The bundles of services that banks have traditionally provided - credit, money storage, payments and so on are being picked apart and sold individually. Savers in the rich world are lending directly to borrowers through peer-to-peer websites. New sorts of remittance firms are allowing people to send money to relatives back home using pipelines that bypass banks and other traditional intermediaries, helping to reduce the hefty fees charged on such transfers. This disruption should improve the lives of the world's poor, even as it challenges and alters the business models of mainstream lenders.



One area where progress has been faster is credit. However, economists continue to debate whether loans benefit the poor. Much of the new evidence emerging from countries such as Malawi suggests that it is more beneficial to help a farmer save the money needed to plant next year's crop than to have him borrow it at annual interest rates of 30% or higher.

The poor, of course, are less likely to have bank accounts at all. In developing countries the richest 20% is more than twice as likely as the poorest 20% to have a bank account. Globally, less than 25% of people making $2 per day or less have accounts; when average daily income rises above $10, the banking rate rises to around 60%. The unbanked include the majority of people in Latin America, the Middle East, sub-Saharan Africa and large parts of Asia, as well as nearly half in Eastern Europe. In some African countries, banking rates are so low as to be negligible: in Sudan, for instance, less than 7% of adults have an account. Within OECD countries the rate is 92%, though with tremendous variation: over 90% in the Nordic countries, but little more than 70% in Italy, which has a sizeable underground cash-based economy, and under 50% in Mexico.

Poor people aren't just forced to pay a premium for credit or savings; they are often deprived almost entirely of other financial products, such as insurance, whether for crops, livestock or life. Their inability to hedge risks has a variety of consequences. In Tanzania, uninsured small-scale farmers tend to plant crops they can eat, even though these may offer smaller returns than cash crops. In Uganda, poor farmers who are unable to lock in future prices for their crops are less likely to invest in high-return coffee production because of uncertainties over how much they will get paid.

For much of the past century, governments have tackled the problem of financial inclusion without much success. India, which nationalised its 14 biggest banks in 1969 (and a few more in 1980), was a leading proponent of this approach. Though it has since liberalised its banking system, it still forces banks to provide services in remote villages. Even so, by 2011 only 35% of Indian adults had formal bank accounts.

The recent combination of mobile telephony, cloud computing and new business models is likely to have a greater impact than previous decades of either top-down planning or the trickle-down of economic growth. At the end of 2013, there were 219 mobile-money services in 84 countries, with more than 60 million account-holders. More than half of the services were in sub-Saharan Africa. Some of these mobile-money services are gaining a foothold elsewhere: in Afghanistan, for instance, M-PAISA is used to pay the salaries of policemen who were previously paid in cash. Many reportedly thought they had received large pay increases because the officers handing out their pay were no longer able to take a cut.

Mobile phone-based services make moving money cheap enough to enable other financial innovations that improve the lives of the poor. Bima, for instance, is a Swedish firm that sells life, accident and health insurance using mobile phones. Its low distribution costs allow it to offer premiums as low as $6 a year. AllLife, a South African firm that offers life insurance to people with HIV, reduces its underwriting risk by sending its customers text messages reminding them to take their medication. M-SHWARI, a banking service, allows its customers to use mobile phones to deposit savings into 'locked' accounts that will only unlock on a specific date, such as when school fees need to be paid.

Mobile phone data is also being used to inform credit-underwriting decisions. For instance, the venture-investing team at ACCION, a microfinance group, is working with companies whose data suggest that a villager who tops up his card on the same day each week and passes by more than two mobile phone masts during the week and thus has reliable financial habits and travels quite a lot, is likely to be a better borrower than someone who stays put and tops up irregularly.

Take-up of M-PESA and similar services has been swifter in poor countries than rich ones because such services do not have to compete with an extant banking model: customers choose not between traditional banks and mobile money, but between mobile money and cash under the bed. Yet there is still space for inventiveness in high income countries where the financial architecture tends to be built around banks. Progreso Financiero (PF), a storefront lender operating in Texas, California and Illinois, offers loans of between $250 and $3,500, mainly to Latino immigrants with no credit histories or bank accounts. PF charges higher interest than mainstream banks but far less than the payday or auto-title lenders to which its clients would otherwise turn. In seven years of operation PF has made more than 500,000 loans. Belatedly, banks are beginning to adapt to serve low-income customers, generally with prepaid cards rather than with full-service accounts. Other banks are being forced to respond to the mobile-money revolution.

In many countries, regulation is keeping people out of the financial system; inability to provide required documentation and discriminatory laws, such as restrictions on the ability of women to enter into contracts (and hence open bank accounts), contribute to the considerable gender gap in access to banking. In contrast, countries that encourage innovation and help banks and companies to deal with regulatory obstacles, for example, by providing official identification cards that make it easier for banks to meet rules requiring them to know their customers, have proved more successful at bringing the poor into their financial systems. There are other ways in which governments can help the process along. One is to make more benefits payments electronic. Another is to bring more clarity to rules on mobile money in order to encourage more banks to enter the business, and to assuage telecoms companies' fears about regulatory risk in financial services. The benefits of bringing more of the world's 2.5 billion unbanked into the formal financial system would be enormous. For example, in South Africa's Eastern Cape, pensioners are given government-issued smart cards linked to accounts into which the government can electronically pay their monthly pensions, which previously were handed to them in cash. Take-up has been rapid. With electronic payment, the elderly no longer have to queue for hours to get their monthly money, nor do they risk having it stolen on the long walk home.

2 African Economies

2.1 Financial Inclusion

In December, MasterCard announced the launch of MasterCard Lab for financial inclusion, a new initiative seeking to impact more than 100 million people globally by developing practical and cost-effective financial tools that expand access and help build stable futures over the long term. Through a grant over three years of $11 million from the Bill & Melinda Gates Foundation, the Lab will generate new ideas with local entrepreneurs, governments and other stakeholders across East Africa. The lessons from the MasterCard Lab for financial inclusion will be distributed for the public good, and all products and services coming out of the Lab will make use of standards ensuring maximum flexibility to empower local financial service providers for the benefit of poor people in the developing world.

2.2 Telecommunications

Africa's emerging middle class estimated at 350 million has become a focal point for multinationals operating on the continent. But Africa's poor haven't figured in many boardroom discussions, largely because they can't afford much of what foreign companies sell and the continent's poor roads make them hard to reach. Africa, nonetheless, is a key testing ground for microbusiness models. About 70% of the global poor live in Africa. Sub-Saharan Africa's gross national income was $1,657 per capita in 2013, according to the World Bank. About 65% of households in sub-Saharan African had at least one mobile phone in 2013, and the region is the world's fastest growing mobile-technology market, according to Gallup. Most of these aren't smartphones, but low-price phones that customers load with a few dollars at a time to use for calling and text messaging. Some of the poorest customers use only text messages, because they are cheaper.

2.2.1 Broadband

According to Ovum, a technology consultancy, mobile subscriptions in Africa will surpass the one billion mark in 2016, up from 851 million in Q2 2014, and reach 1.23 billion in 2019. The number of mobile broadband connections in Africa is expected to increase from 96 million in 2013 to 950 million in 2019 or equivalent to 77.3 per cent of total mobile subscriptions. The growth driver will be the roll-out of mobile broadband networks and the increasing affordability of data devices such as smartphones. Fixed broadband household penetration in Africa was 5.2 per cent in Q2 2014, the lowest rate among major world regions.

Source: Ovum Broadband Development Index 2014

Africa scores 226 out of 1,000 on Ovum's Broadband Development Index for 2014, ahead of Central & Southern Asia (219 out of 1,000), but a long way behind the leading regions, which are North America (633) and Western Europe (433). Within sub-Saharan African countries with a population of more than three million, South Africa, Kenya, Zimbabwe, Uganda and Nigeria have the most advanced broadband markets, with 2014 Broadband Development Index scores of 262, 244, 241, and 227 (both Uganda and Nigeria score 227) respectively.

3 Nigerian Economy

3.1 GDP

The National Bureau of Statistics (NBS) stated that the economy, in real terms, grew by 6.23 per cent in the third quarter of 2014, which is lower than the 6.54 per cent recorded in second quarter of 2014. The NBS stated that the oil sector experienced production challenges, adding that the average daily production of crude oil in the third quarter of 2014 was recorded at 2.15 million barrels per day (mbpd), a decrease from 2.26 mbpd recorded in the third quarter of 2013. The oil sector contributed approximately 10.45 per cent to real GDP in the third quarter of 2014, which is lower than the 10.76 per cent contribution in the second quarter of 2014, and the 11.51 per cent contribution recorded during the third quarter of 2013. The non-oil sector growth was driven by activities in crop production, textile, apparel and footwear, telecommunications, and real estate sectors. In the third quarter of 2014, the non-oil sector recorded 7.51 per cent growth in real terms, which is lower when compared to 8.46 per cent at the corresponding period in 2013, yet higher than the 6.71 per cent achieved in the second quarter of 2014.

3.2 2015 Budget

On December 17, the federal government set the N4.357.96 trillion budget for the 2015 fiscal year before the respective houses of the National Assembly, projecting that the economy will grow by 5.5 per cent in 2015, down from an earlier projection of 6.4 per cent, due to lower oil revenues. The budget, which was laid by the Coordinating Minister for the Economy and Minister of Finance, Dr. Ngozi Okonjo-Iweala, was predicated on a benchmark of $65 per barrel of oil and an exchange rate of N165 to the Dollar. The budget will be driven by a projection of oil production of 2.278 million barrels per day. According to Dr. Okonjo-Iweala, the focus of the budget is to diversify the economy by raising non-oil revenue through various types of taxes and policies, including a tax surcharge on luxury goods such as private jets, luxury cars, high-value properties and certain alcoholic beverages. She said that, despite the economic downturn, prices of food have remained stable.

3.3 Inflation

According to NBS, in December, the Consumer Price Index (CPI) which measures inflation rose to 8.0 per cent (year-on-year), up 0.1 percentage point from 7.9 per cent recorded in November. This implies that inflation has remained in the single digit range for twenty four consecutive months. In December, food prices edged slightly higher in December as a result of the festive period. The Food sub index rose by 9.2 per cent (year-on year) up from 9.1 per cent recorded in November. This was the first increase in rates of food prices observed in four months. While higher increases were recorded in the meat, fish, and dairy groups, there were slower rises in the bread and cereals, oil and fats, and fruits groups. The pace of advances recorded by the All Items less Farm Produce or Core sub-index slowed for the first time since August 2014. The Core sub-index eased in December, increasing by 6.2 per cent, after increasing by 6.3 per cent in the previous four months. While prices increased in most divisions that contribute to the Core sub-index, slower increases were recorded in the communication and, recreation and culture groups.

3.4 Foreign Reserves

Foreign reserves increased slightly to $34.513 billion in the first six days of 2015, compared with $34.495 billion as at December 30, 2014. The reserves depreciated by $9.010 billion in 2014. The Central Bank of Nigeria relies heavily on the foreign reserves to support the Naira. The CBN stated that the country had spent significant assets from the foreign reserves in ensuring that the official exchange rate was maintained at its previous value of N155/$1.The significant drop in the reserves has been attributed to the increasing appetite for foreign currency despite the dwindling supply of US Dollars in the country. The decline in crude oil prices, which has led to a reduction of earnings to the country, has also resulted in the drop in inflow of US Dollars to Nigeria.

3.5 Government Debt

The Federal Government spent a total of N471bn to service its domestic and external debts in the first half of the 2014 fiscal year, according to the Budget Monitoring and Implementation Report issued by the Budget Office of the Federation. As of September 30, 2014 Nigeria's overall public debt stock, according to Dr. Ngozi Okonjo-Iweala, was $69.6bn or about 13 per cent Gross Domestic Product, made up of external debt of $9.5bn and domestic debt of $60.1bn. Dr. Okonjo-Iweala said the increase in domestic debt was due to the 53.7 per cent rise in wages for all categories of federal employees, following the 2010 National Minimum Wage Act (Amendment) Bill.

3.6 Employment

According to the NBS, a total of 349,343 new jobs were created in the third quarter of 2014, with the formal sector accounting for 145,464 new jobs; the informal sector accounting for 198,144 new jobs; and public institutions accounting for created 5,735 new jobs. The total number of jobs created in

Q3 2014 was higher relative to 259,353 new jobs created in Q2 of 2014. A total of 849,567 jobs were created in all the sectors in the first three quarters of 2014.

3.7 World Bank's Ease of Doing Business Ranking

Nigeria improved by five places in the World Bank's latest Ease of Doing Business global ranking, although the country still ranks lower than most. Nigeria is now ranks 170 out of a total of 189 countries measured in the survey. Nigeria ranks among the top five economies in sub-Saharan Africa in two areas: the ease of getting credit, and the strength of minority investor protection. Some improvement was also recorded in the process of starting up a business. In ease of obtaining credit, Nigeria jumped 73 places up to No. 52, while in ease of starting a business it improved nine places to No. 125.

The World Bank report noted that Nigeria has implemented 10 regulatory reforms since 2005 that make it easier to do business. A majority of reforms have focused on improving business incorporation, trade, and credit reporting systems, allowing the country to gradually narrow the gap with the best regulatory practices in the region. For example, Nigeria improved its credit information system through the CBN's guideline defining the licensing, operational and regulatory requirements for privately owned credit bureaus. The country improved access to credit information by distributing credit information from retail companies. However, Nigeria recorded a decline in rankings in dealing with construction permits, getting electricity, paying taxes and resolving insolvency.

4 Financial Sector

4.1 Capital Markets

The equity market of the Nigerian Stock Exchange (NSE) closed on December 19, 2014 at N10.0 trillion, down from the N13.2 trillion it had opened at the beginning of trading on January 2, 2014. The investors in the Nigerian capital market lost N3.2 trillion or 24.4 per cent during the year. In a similar vein, the All Share Index dropped by 26.6 per cent towards the end of December, 2014 from 41.329.14 points at the beginning of trading in January 2014 to 30,308.51 points on December 19, 2014. Operators in the Nigerian capital market attributed the decline in the stock market performance indicators to the CBN's monetary tightening policies, Naira devaluation, and global fall in oil prices, amongst others.

In contrast, global stock indices generally rose in 2014. In the US, the NASDAQ Index increased by 13.8 per cent; the S&P 500 Index also appreciated by 11.5 per cent; and the Dow Jones Industrial Average increased by 5.7 per cent. The Tokyo's Nikkei 225 Index increased by 8.1 per cent. However, the London Stock Exchange's FTSE 100 Index dropped by 2.7 per cent.

4.2 Financial Inclusion

In November, the Central Bank of Nigeria stated that its recently conducted baseline survey on Nigeria's state of Financial Literacy would be published in the first quarter of 2015. The survey results will be made public and will also inform the CBN's consumer education, sensitisation and awareness campaigns. Mrs. Umma Aminu Dutse, the Director of the CBN's Consumer Protection

Department, stated that knowledge of the financial literacy level of Nigerians is key to increasing the people's confidence in the formal financial system, as well as promoting financial inclusion.

4.3 Banking Industry

According to the Central Bank's Economic Report for October:

- The total assets and liabilities of the banks in the country rose by 1.5 per cent above the level at the end of the preceding month to N26, 335.57 billion. Funds were sourced, mainly, from increased mobilisation of central government deposits, increase in unclassified and foreign liabilities, and reduction in foreign assets.
- Credit to the domestic economy fell marginally by 0.7 per cent to N13,874.56 billion, compared with the level at the end of the preceding month. The decline was attributed to the 3.9 and 0.5 per cent decline in credit to the Federal Government and credit to the private sector, during the review month.
- Total specified liquid assets of the banks were N6,413.02 billion, representing 37.0 per cent of their current liabilities. At that level, the liquidity ratio declined by 0.8 percentage point below the level in the preceding month, and was 7 percentage points above the stipulated minimum ratio of 30.0 per cent. The loans-to-deposit ratio, at 62.8 per cent, was 2.9 percentage points above the level at the end of the preceding month, but was 17.2 percentage points below the prescribed maximum ratio of 80.0 per cent.
- At N16,408.5 billion, aggregate banking system credit (net) to the domestic economy grew by 0.9 per cent, on month-on-month basis, compared with the growth of 2.7 per cent at the end of the preceding month.

Summary of 2014

Nigerian banks reported weaker earnings in 2014 as compared with the previous year, as a slew of regulatory actions impacted their bottom lines. The banks' profits were mostly weakened by the significant increase in the cash reserve requirement (CRR) on public sector funds. The CBN during the year further raised the CRR on public sector funds to 75 per cent in 2014, while the CRR on private sector deposits was increased to 20 per cent, from 12 per cent at the beginning of the year. The competition in the industry also intensified as fee-based earnings shrank.

There was also consolidation in the banking industry - with Heritage Bank Limited acquiring Enterprise Bank for a consideration of N56.1 billion; whilst Skye Bank acquired Mainstreet Bank Limited for a consideration of N126.0 billion. Skye Bank stated that the acquisition of the Mainstreet Bank is part of its strategic plan for growth as it intends to leverage its wealth of experience from the successful integration of five banks to drive efficiency, increase market share and ultimately ramp up stakeholder value.

4.3.1 Central Bank of Nigeria

Bank Verification Number (BVN)

The CBN stated that all new loans from Deposit Money Banks must have the Bank Verification Number as a condition precedent to drawdown, with effect from November 3, 2014. The CBN further added that all credit customers must have their BVN by December 31, 2014. In addition, all DMBs are required to fully integrate their core banking system by October 31, 2014 at the latest, to ease the enrolment process; and the apex bank would monitor compliance.

The CBN in collaboration with the Bankers 'Committee launched the BVN project in February 2014. As part of the overall strategy of ensuring the effectiveness of Know-Your-Customer principles, the BVN gives each bank customer a unique identity across the Nigerian banking industry. The CBN has said that all DMBs are required to enrol at least 40 per cent of their customers with BVNs on or before 31 December 2014, and have reached 70 per cent on or before March 30, 2015.

International Money Transfers

The CBN increased the maximum value for the recently introduced outbound international money transfer services from $2,000 per transaction to $5,000 per transaction on October 13, 2014. The CBN disclosed this in a circular titled: 'Guidelines for the Operation of International Money Transfer Services (IMTS) in Nigeria.' However, the apex bank stressed that the service is only applicable for person-to-person transfers, and that corporate entities are not allowed to use this product. The CBN recently licensed three major money transfer organisations (MTOs) in Nigeria to engage in outbound international money transfer services, a move that is expected to increase the volume of outbound international transfers conducted via the formal financial system. MoneyGram has become the second operator, after Western Union, to operate outbound money transfer services from Nigeria.

4.3.2 Nigeria Deposit Insurance Corporation (NDIC)

Nigeria Deposit Insurance Corporation (NDIC) said its safety net coverage has reached 98 per cent of customers of Deposit Money Banks. The Deputy Director, Banking Examination, NDIC, Mr. Mohammed Y. Umar, said that 98 per cent of deposits in DMBs have a total value of less than N500,000. He noted that only 2 per cent of deposits in DMBs are not currently fully covered by the Corporation.

The Managing Director/Chief Executive Officer, Alhaji Umaru Ibrahim Nigeria, stated that NDIC had paid N102.49bn to depositors and shareholders of closed banks. The CEO said, "Following the revocation of the operating licences of about 48 insured Deposit Money Banks in 1994, 1995, 2000, 2003 and 2006; 103 Microfinance Banks in 2010 and 83 in 2013; and 26 Primary Mortgage Banks in 2014, the NDIC has paid a cumulative sum of N6.825bn to 528,277 insured depositors of the DMBs in-liquidation as of August 31, 2014; and made a cumulative payment of N2.75 billion to depositors of 103 closed MFBs as at September 30, 2014." He further added that the NDIC are working on extending deposit insurance to those with mobile money accounts, saying that, "In order to engender confidence of the public in subscribing to the products of the MMOs, the NDIC has considered as imperative the extension of deposit insurance to individual subscribers in the form of pass-through deposit insurance."

The NDIC revealed that the total deposits of deposit money banks was N17.16 trillion as at September 2014, up from N16.75 trillion recorded as at December 2013. Non-performing loans of banks declined from N321.66 billion as at December 2013, to N298 billion as at September 2014. The NDIC boss said that the Corporation examined 196 MFBs and found that while most of them had inadequate capital, only 20 had Portfolio at Risk ratio of five per cent.

4.3.3 E-Payments

The Central Bank said the reintroduction of ATM charges has pushed up the usage of other payment channels in the financial services sector. POS transactions increased from N23.3 billion in August 2014 to N28.8 billion in October 2014. Mobile money payments increased from N28.3 billion in August 2014 to N34.398 billion in October 2014. Meanwhile, ATM transactions decreased by 9.60 per cent following the reintroduction of ATM charges.

The Nigeria Interbank Settlement System (NIBSS) disclosed that in July 2014, for the first time since its history NIBSS recorded over 10,000,000 e-payment transactions on its platform during the month, compared to the average monthly transaction volume of 8,075,000 in 2013. Both the NIBSS Electronic Fund Transfer (NEFT) and NIBSS Instant Payment (NIP) products have enjoyed steady adoption over the years, enhanced by the CBN mandate for government and corporate entities to make all salary and administrative payments electronic.

- Between January and August: the total volume of NEFT transactions increased from 18.8 million in 2013 to 19.3 million in 2014;, whilst the total value of transactions increased from N9.2 trillion in 2013 to N9.8 trillion in 2014.
- While customers' affinity towards instant payment has seen NIP volumes grow. Between January and November: the total volume of NIP transactions increased from 14.6 million in 2013 to 35.8 million in 2014; whilst the total value of transactions increased from N9.4 trillion in 2013 to N17.8 trillion in 2014.
- Between January and November: the total volume of POS transactions increased from 8.0 million in 2013 to 18.1 million in 2014; whilst the total value of transactions increased from N136.4 billion in 2013 to N272.7 billion in 2014.
- Through the Cheque Truncation System (CTS) deployed by NIBSS, the clearing period has reduced from T+3 to T+2 in Nigeria. Between January and November: the total volume of cheques cleared increased from 12.9 million in 2013 to 14.1 million in 2014; whilst the total value of cheques cleared decreased from N7.0 trillion in 2013 to N6.6 trillion in 2014.

In November, the Central Bank of Nigeria announced that it would soon commence a comprehensive review of the nation's electronic payment guidelines. The Deputy Governor, Operations Directorate, Alhaji Suleiman Barau, said that the review of guidelines was to build on the success recorded in the promotion of e-payments in the country. He said that the CBN is committed to reviewing the following regulations: mobile payments regulatory framework; guidelines on stored value/prepaid cards; guidelines for card issuance and usage in Nigeria; guidelines for point-of-sales card acceptance services; revised Nigeria bankers clearing house rules; guidelines for cheque truncation; direct debit rules; guidelines on transaction switching services; operational rules and regulations of the Nigeria central switch; and guidelines on ATM operations. Earlier in the year, the CBN had issued the revised guidelines on the electronic payments of salaries, pensions, suppliers and taxes in Nigeria; guidelines on international remittances services; and the review of the operations of the NIBSS Instant Payment (NIP).

4.3.4 Cash-less Policy

With the CBN's cash-less economy gradually taking shape in the country, the apex bank has registered 163,733 POS terminals, although only 125, 025 have been connected and deployed as at the middle of this year. Statistics from the Nigeria Inter-Bank Settlement System (NIBSS) showed that the average daily transaction volume at 50,402, while the mean value per purchase was N15,404. The CBN has licensed six Payment Terminal Service Providers (PTSPs), to deploy POS terminals across the country, with an additional 10 Approvals in Principle given so far. The CBN has noted that there are still challenges related to POS terminals, including connectivity and network challenges, inadequate enlightenment, low capacity of PTSPs and merchant apathy. The CBN, in collaboration with the Bankers' Committee, is exploring other alternatives including using GPRS for the deployment of POS to boost services on the terminals.

4.3.5 Microfinance

As of December 31, 2014, microfinance banks in Nigeria had invested total assets of N224.6 billion in government Treasury Bills. The Microfinance Policy and Supervisory Guidelines require five per cent of microfinance banks' deposit liabilities to be invested in government treasury bills and bonds, considered to be risk free.

The NDIC noted in its 2013 annual report that most of the MFBs examined were observed to have been operating like deposit money banks, with high investment in fixed assets and unsustainable overhead costs. Within that period, microfinance banks' total assets were N224.57 billion, total deposit liabilities amounted to N121.25 billion, total loans and advances were N100.34 billion, while total paid up capital was N50.53 billion. Portfolio-at-Risk (PAR) ratios of some MFBs were in excess of 50% as against the prudential maximum rate of 5%. The rule of "Know-Your-Customer" (KYC), which ought to be the prime driver in lending decisions, had been overtaken by the desire for immediate profit, leading to weak/inadequate underwriting, and non-adherence to conditions precedent to draw-down, including failure to obtain security where necessary. The slow legal and judicial system made it difficult for MFBs to recover their non-performing loans (NPLs) or foreclose on the collateral in the event of default.

4.3.6 Agriculture Finance

In January 2015, Sahel Capital, fund managers of the Fund for Agricultural Finance in Nigeria (FAFIN), announced its first investment of a 25 per cent stake in L&Z Integrated Farms Limited, one of the fastest growing dairy producers and processors in Nigeria. With FAFIN's investment, L&Z intends to expand its production and processing capacity and also increase the number of its milk collection centres. Establishment of milk collection centres reduces the need for the Fulani herdsmen's children to hawk milk products, thus increasing the likelihood of them attending school. FAFIN aims to invest $100 million to support sustainable growth in agriculture-oriented SMEs. FAFIN is a $100 million agribusiness-focused Investment Fund that aims to transform the landscape of private sector agricultural finance in Nigeria, while providing commercial returns to investors. $34 million has been raised from FAFIN's sponsors for investments, alongside $2.75 million for a dedicated Technical Assistance Facility to provide support to companies in which FAFIN invests.

4.4 Pensions

According to the National Pension Commission (PenCom), at least 24 states have dropped the Pay As You Go pension scheme to adopt the Contributory Pension Scheme (CPS) for their workers. Twelve other states are at the various stages of implementing the scheme, while one state has yet to commence the process. As at June 2014, the CPS has accumulated a large pool of investible funds of over N4.5 trillion pension assets. The PenCom boss also revealed that over 6.2 million contributors have registered on the CPS since inception.

As part of efforts to make it easy for the employers to remit pension contributions on behalf of their employees, the Pension Fund Operators Association of Nigeria (PenOp) has unveiled a portal known as Electronic Pension Contribution Collection System (EPCCOS). EPCCOS, which is presently undergoing a pilot test with 500 selected organisations that have adopted the Contributory Pension Scheme, will come into operation in January 2015. The platform is free and will enable employers to comply with the Contributory Pension Scheme without any difficulty. EPCCOS is intended to eliminate employers' burden of multiple schedule generation, ensure timely crediting of employees' Retirement Savings Account (RSA), ensure minimal contribution reconciliation issues and provide a self-service platform.

PenCom plans to establish and maintain a Pension Protection Fund for the benefits of retirees registered with any of the pension schemes established, approved and recognised by the Pension Reform Act, 2014. PenCom said the Fund would be used to guarantee the minimum monthly pension stipends that retirees would get. According to the Commission, part of the funds for the minimum guaranteed pension will be obtained through an annual subvention of one per cent of the total monthly wage bill payable to employees in the public service of the federation. It will also be funded from the annual pension protection levy paid by the Commission and all licensed pension operators at a rate to be determined by PenCom from time to time. The Pension Protection Fund would also be funded from income realised from the investment of the Fund. PenCom said the Commission would utilise the Pension Protection Fund for the minimum guaranteed pension for all Retirement Savings Account holders who had done business with a licensed Pension Fund Administrator for a minimum number of years to be specified by the Commission. The Fund would also be used for the payment of compensation to eligible pensioners for shortfall of financial losses arising from investment activities.

4.5 Non-interest Finance

Nigeria's aim to be a hub for Islamic finance is failing to materialize, due to a shortage of skilled and knowledgeable operators and lack of products. "We have very few professionals, such as lawyers and accountants who are conversant with Islamic Finance," said Mr. Kazim Yusuf, CEO of Kord Capital, a Shariah compliant investment company. "Liquidity management in our industry is also a big problem, due to a lack of products," Mr. Yusuf said. On the other hand, a lack of growth in the sector may be stifling the operations of the few active operators. "It is very difficult for a standalone Islamic bank to operate within an economy that largely operates an interest- based financial services industry," said Babback Sabahi, Senior Counsel at the US Securities and Exchange Commission.

5 Telecoms Sector

Dr. Peter Jack, the Director-General of the National Information Technology Development Agency (NITDA), said, "ICT contributes over 8 per cent to the Nigeria's Gross Domestic Product (GDP) and is now growing at 7 per cent annually. Our target is to grow the ICT industry to a point where it contributes up to 15 per cent to the GDP within the next three to five years." The Director-General explained that NITDA had developed a national Information and Communication Technology (ICT) Strategic Plan with a timeline of 2010-2015. According to him, the implementation of the Plan is on-going. "Specifically, we have embarked on some smart initiatives which include the national e-government Master Plan and Strategy. The others are the Tinapa Knowledge City, with a full-fledged IT Park and Software Development Centre and plan to site a Reverse Engineering Centre in the facility. The Lekki Smart City Initiative, Lagos Innovation City and the Lekki Software Development Academy, which is planned to house a software incubator and accelerator, are among the initiatives. There is the iDEA Hub, which is our pilot programme in software incubation and innovation and Software Development and Testing Centre," he said. The Director-General explained that the Abuja Technology Village was already housing the 'Inspire technology incubation hub', and will also house part of NITDA's innovation facility in Abuja.

According to NCC, in September 2014 the number of inactive telephone lines reached 49,641,091; the number of connected lines was 184,148,420; whilst the number of active lines was 134,507,329. Teledensity reached 96.08%. The table below provides a summary of telephone subscribers in September 2014.

	Number of connected lines	Number of active lines
Mobile GSM	**179,973,274**	**131,910,228**
Mobile CDMA	**3,812,184**	**2,406,382**
Fixed Wired/Wireless	**362,962**	**190,719**
Total	**184,148,420**	**134,507,329**

Source: NCC

According to NCC, as of September 2014 in terms of GSM operators, MTN was the market leader with 58,363,105 subscribers (market share of 44%); followed by Globacom with 27,611,353 subscribers (market share of 21%); then Airtel with 26,054,521 subscribers (market share of 20%); and finally Etisalat with 19,881,386 subscribers (market share of 15%).

6 Mobile Money

6.1 Africa

M-PESA

Mobile phones have been touted as the solution to banking for the poor in Africa, given that phone penetration is so high. However, some bankers warn it is not that simple. Mr. John Staley, Chief Officer, Finance, Innovation and Technology of Equity Bank, said the success of M-PESA in Kenya had not been replicated except in Zimbabwe and Bangladesh. "There has been too much hype about mobile and what it is going to do in Africa. Yes, it is going to play a huge part, but I think in the short run don't forget cards," he said. A bank card costs about $2, while a mobile phone costs about $10 meaning it is still more cost-effective to give customers cards. According to Mr. Staley, attempts to introduce M-PESA in South Africa have been unsuccessful. Vodacom, working with Bidvest Bank instead of former partners Nedbank and Standard Bank, is trying a new strategy, having re-launched M-PESA. Vodacom is targeting 10 million mobile money customers in the next five years. In contrast, it signed up only 1 million customers from 2010, and it is unclear how many of them actually use the M-PESA.

In Kenya, M-PESA has more than 19 million customers and 81,000 agent outlets countrywide. Financial Sector Deepening Kenya's financial diaries study found that poor people transact more often than wealthier people, about 100 to 200 times a month. However, 86 per cent of these transactions were for less than $5 and the average transaction size was $1. Mr. Staley said 98 per cent of transactions were still in cash. In Kenya, on average, people make two high-value electronic transactions a month, while they pay cash the rest of the time. The success of M-PESA was, therefore, more due to the ability to deposit and withdraw cash at agency outlets. "The key point we have learnt from M-PESA is to roll out cash-in and out points as we are not going to get rid of cash in the short run," Staley said. He further added that banks and telecoms companies need to realise just how poor the poor in Africa are.

6.1.1 Kenya

For those companies that want to reach the continent's most price-sensitive consumers, Kenya has become a useful launching pad. Digital payments are now so common in Kenya that everyone from day labourers to grandmothers send money across the country via mobile phones. Kenyans pay for groceries at checkout by tapping on their phone and avoid trips to the electricity company by paying for power via mobile money. Some doctors even accept M-PESA as payment.

Across Kenya, mobile money is breathing life into micro businesses. Companies whose business models are based on mobile payments have shown how targeting some of the world's poorest customers can be a promising way to grow. Small digital transactions are fuelling new ventures, from insurance to loans, and pointing the way for other companies that want to reach the global poor, or the 'bottom billion'. "The mobile phone made the bottom of the pyramid viable as a business opportunity. If you're taking a dollar off a million people, that's a reasonable revenue stream, but it wasn't possible to do that without the mobile phone," said Aly Khan Satchu, who runs a Kenyan investment firm.

Another company called Kopo Kopo, founded by two Americans, sells a product that allows informal retailers to accept digital payments, and then to computerize their bookkeeping. A Kenyan-American venture called M-Changa gives extended families a phone app to raise money for weddings and funerals - the type of events that draw support from an entire Kenyan village. And Kenya's UAP Group insurance company insures small farmers, and compensates crop failures via mobile payments based on satellite weather data, sometimes before the crops fail.

M-Kopa

Mrs. Tipanoi - the wife of a cow herder recently switched on a light in her home for the first time ever, all thanks to a mobile phone. Rokoine Tipanoi used her mobile phone in November to make a tiny down payment on a solar panel on her roof that provides electricity for her home. The payment was so small, in fact, that it is cheaper to light her room now than it was to fill her old kerosene lantern. Hundreds of thousands of such payments have allowed a Kenyan start-up called M-Kopa to build a business, one light bulb at a time. “Now I have two lights, instead of one lamp. And I can charge my phone,” Mrs. Tipanoi said of the new solar panel she snagged for a $30 deposit and daily fees of 40 Kenyan shillings (less than 50 cents).

Equity Bank

The Supreme Court of Kenya recently suspended the launch of Equity Bank Mobile Money due to concerns over security of the technology to be deployed. The Supreme Court was asked to prevent Equity Bank from testing its financial service from the thin SIM card, a chip embedded into a thin plastic sheet that sits on top of an ordinary SIM card, making two services available simultaneously. This is because the telecom regulator has made no substantive security audit on this item, which could extricate the personal data of consumers contained on the primary SIM card. Since the virtual network operator license for mobile money was awarded to Equity Bank in April 2014, Safaricom has posited that Equity Bank’s proposed technology could be a danger to the data transiting in its telecom network. Equity Bank will have to wait for the decision of the court on January 20, 2015 before learning whether or not it can begin its Mobile Money service.

6.1.2 Uganda

In November, Ericsson announced that MTN Uganda has deployed the Ericsson Converged Wallet platform, enabling the operator to quickly introduce relevant, new and differentiated mobile financial services offerings to seven million MTN Uganda mobile wallet users and 50,000 agents. Ericsson and MTN Group have a strategic partnership to ultimately launch mobile wallet services across MTN’s footprint, and the Ericsson Converged Wallet serves as a mobile money hub solution, connecting across MTN's operations in several countries.

6.1.3 Tanzania

Vodacom’s mobile money transaction service M-Pawa, launched in May 2014, in partnership with Commercial Bank of Africa (CBA), has reached one million customers as of December 2014. M-Pawa enables a customer to open a bank account on his or her mobile phone and has helped Vodacom subscribers to save and borrow money. The telecom company says customers are able to save as little as 1 Tanzanian Shilling and earn interest immediately from the comfort of their homes or offices. Through M-Pawa, customers are notified of their eligibility for a loan relative to their M-PESA history and on the Vodacom network. So the more a customer uses Vodacom services, the more they can borrow on M-Pawa.

6.1.4 Democratic Republic of Congo (DRC)

In November, Bharti Airtel announced that its mobile commerce service, Airtel Money, has hit the 1 million revenue-earning customers’ landmark in DRC. The achievement is significant because DRC has the largest mobile-money potential in Africa outside Nigeria and Ethiopia, according to industry statistics. With this development, DRC has emerged as the only market in Africa outside of the East African Community region and Zimbabwe where mobile money has achieved scale.

6.1.5 Cameroon

Cameroon's government together with mobile operators, MTN and Orange have launched a new tax service called Mobile Tax. The government said the service will help millions of taxpayers to pay their property taxes via mobile money. Cameroon has a population of 20 million people, and property tax collection is estimated to reach $16 million, as millions of property owners are said to be evading this tax. Under the terms of Mobile Tax, taxpayers must, first of all, open an Orange Money account or MTN Mobile Money account before they are able to use the service. The account will be stored in the state tax department via the MTN or Orange mobile money database.

Mr. Alamine Ousmane Mey, Cameroon's Finance Minister said the service will be available 24 hours a day, and will be deployed in two phases. In the first phase, Mobile Tax will be exclusively reserved for property tax on real estate properties, the Minister said, adding that this is only for landowners who own property in the capital Yaoundé and Douala. The second phase consists of expanding the range of solutions to incorporate other forms of taxes. This will culminate ultimately with the adaptation of Mobile Tax to all taxes and fees provided for in the General Code of taxes.

6.1.6 Angola

In December, the Angolan Investment Bank (BAI) launched the marketing campaign for its new Mobile Payment Service called e-Kwanza. This service will give Angolans a way to transfer money and buy goods through their mobile phones. This service reduces the need to travel with cash and the risk of being robbed. With e-Kwanza, customers can transfer money from their phones to their families and friends anywhere in the country and make payments to traders who are registered on the Angolan Investment Bank's server, easily, quickly and safely. Customers can register free at the BAI counter and activate his or her user via Interactive Voice Recorder (IVR). BAI will handle the security and compliance of all financial transactions. In a country where banking penetration is low, BAI has decided to use mobile market to expand its customer base and increase revenues.

6.2 Nigeria

According to the Director of the CBN's Banking and Payments Systems Department, Mr. Dipo Fatokun, mobile money has hit a record high of N430 billion worth of transactions since inception. There are now 15 million subscribers, 21 licensed Mobile Money Operators (MMOs) and over 14 million monthly transactions.