

# **Overview of Mobile Financial Services Fraud in Nigeria**

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## **Building Trust to increase Uptake and Usage**

# Outline

- A** Introduction
- B** Trust – A major concern that affects the uptake and usage of formal financial services
- C** Impact of Mobile Financial Services (MFS) Fraud on Financial Inclusion
- D** Mobile Payments Fraud – Global and Nigeria Context
- E** Types of Mobile Payments Fraud and Fraud Risk Management Framework
- F** Conclusion and Recommendations on Best Practices in Fraud Management

Enhancing Financial Innovation & Access (EFInA) is a financial sector development agency, funded by the UK's Department for International Development (DFID) and the Bill & Melinda Gates Foundation. Set up in late 2007, EFInA's mission is to make Nigeria's financial system work better, especially for the poor, by facilitating the emergence of an all-inclusive, growth-promoting financial system. EFInA's holistic approach to expanding access to financial services for all, especially for low income households is based on the following four pillars:

## Research

- Provides credible market information on the Nigerian financial sector
- Disseminates bespoke results at EFInA breakfast series, working groups & at stakeholders' events

## Digital Financial Services

- Leverages strategic opportunity in Digital Financial Services to expand the access and reach of basic financial services to the un(der) banked population in Nigeria through innovative financial technologies and platforms

## Innovation

- Hosts and facilitates innovation fora to trigger debate and ideas about pertinent issues.
- Provides financial support for new ideas and approaches to expanding financial access to the un-banked and under-banked segments

## Advocacy & Capacity Building

- Works closely with regulators & policy makers in Nigeria to foster an enabling environment for innovative inclusive financial services & products for the un-banked & under-banked segments
- Facilitates skills acquisition through opportunities to attend training sessions or interact with success stories within and beyond Nigeria

**BILL & MELINDA**  
*GATES foundation*



Primary efforts target selected thematic areas

**Women, Youth, Northern Nigeria**

## Fraud has been identified as an issue affecting the uptake of Mobile Financial Services (MFS) in Nigeria

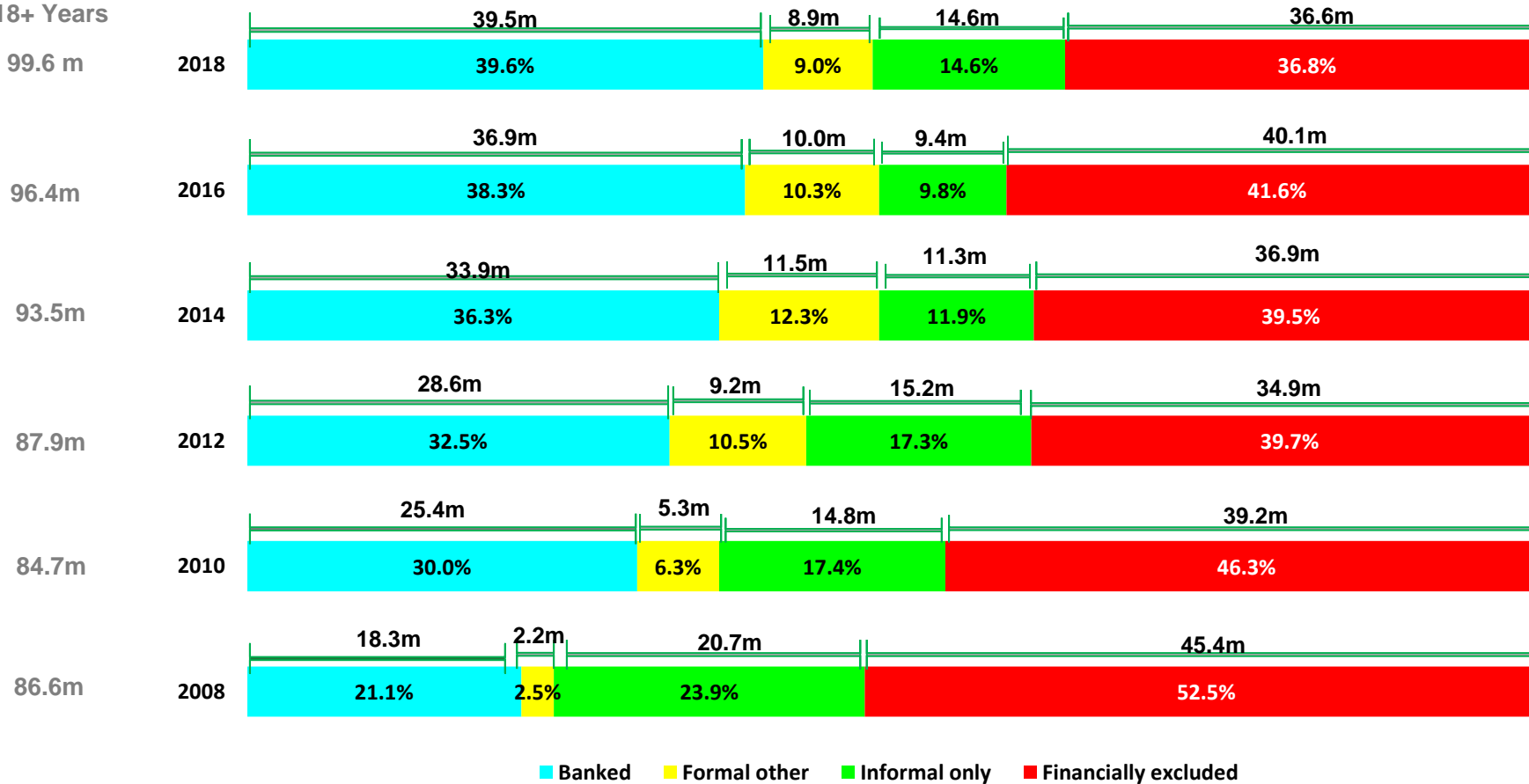
- Considering the high penetration rate of mobile phones in Nigeria (68.9%), mobile is an obvious channel for Nigerians at the bottom of the pyramid to use as they adopt financial services for the first time. However, EFInA A2F 2018 Survey shows that the uptake and usage has been persistently low (at 3.3%), despite its rapid growth in many other emerging markets
- Some of the key obstacles affecting the uptake of mobile financial services in Nigeria include Low Awareness, Access and Trust. The **trust** element has further been identified as **Fraud**, Stability of technology infrastructure in terms of regular availability/low downtime of the platforms and Improved customer experience
- In recent times, MFS providers are constantly faced with a growing threat of fraud which is becoming more complex and sophisticated in Nigeria and other emerging markets. Ease of use has made the mobile a preferred channel for convenience, thus attracting fraudsters
- According to NIBSS, fraud volume reported in 2018 is the highest seen in the last four years, with mobile channel fraud taking the lead in both volume and actual loss value. There's a need for FSPs to collaboratively fortify existing controls to achieve a significant fraud decrease in 2019
- This forum aims to provide guidance on the types, trends, and more importantly fraud management strategies in mobile financial services that is relevant to all classes of financial service providers. It also serves as a platform to highlight key fraud issues for resolution

## Trends In Financial Access Strand – 2008 to 2018

Between 2016 and 2018:

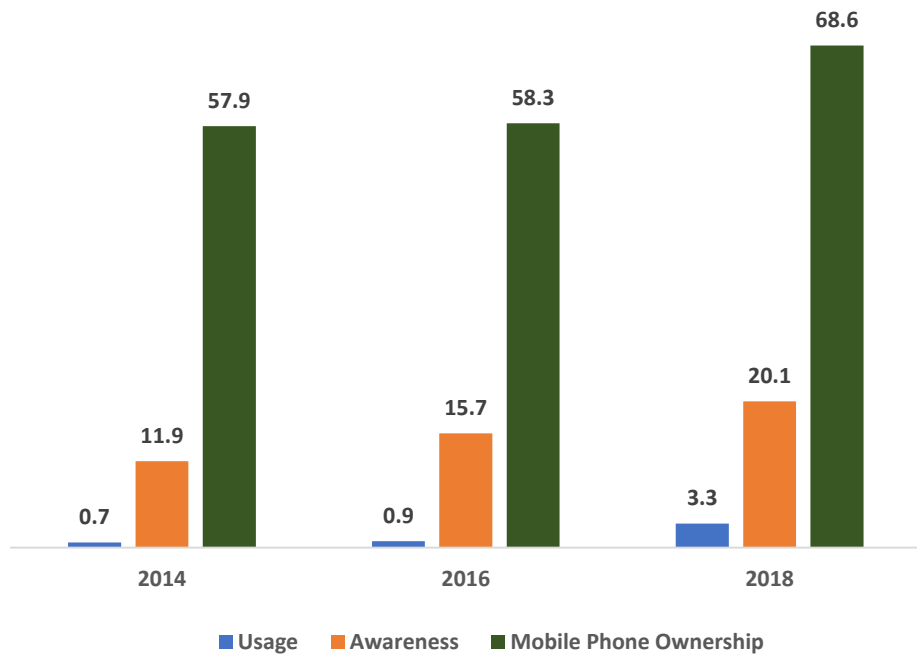
- Significant gains in financial inclusion as excluded population declined by 4.8% from 40.1 million to 36.6 million
- Proportion of the formally served remains static at just below 50%

Adult Population  
18+ Years



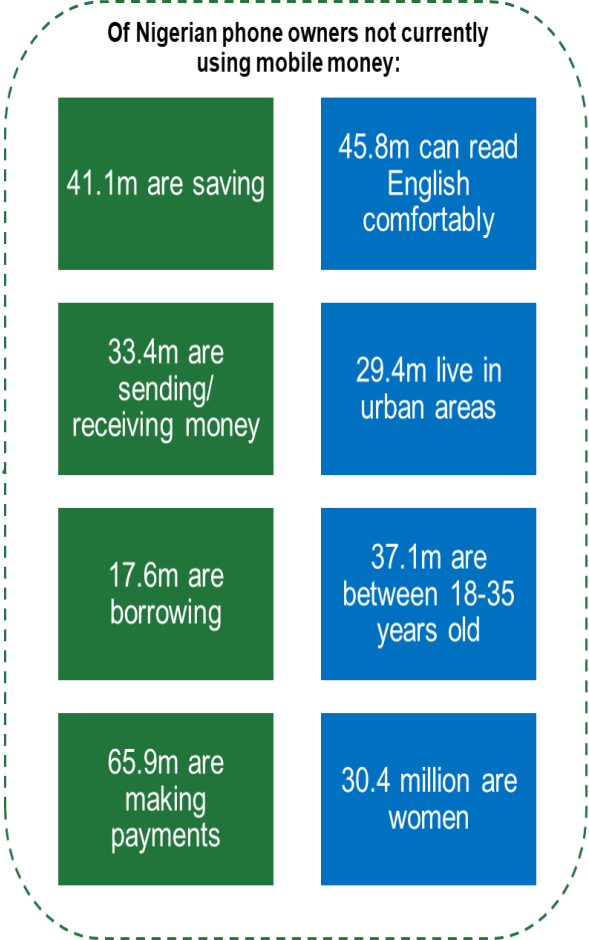
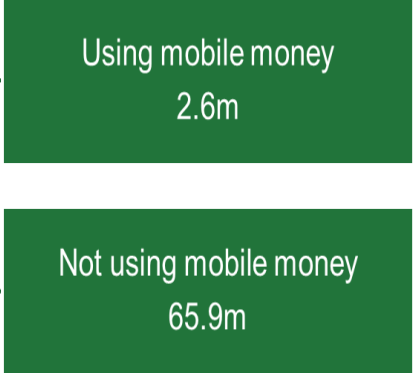
# Despite the low awareness and uptake of Mobile Money in Nigeria, there remains a huge opportunity for the service

**Awareness and Use of Mobile Money, and Phone Ownership**  
Number of Nigerian adults (total = 99.7m)



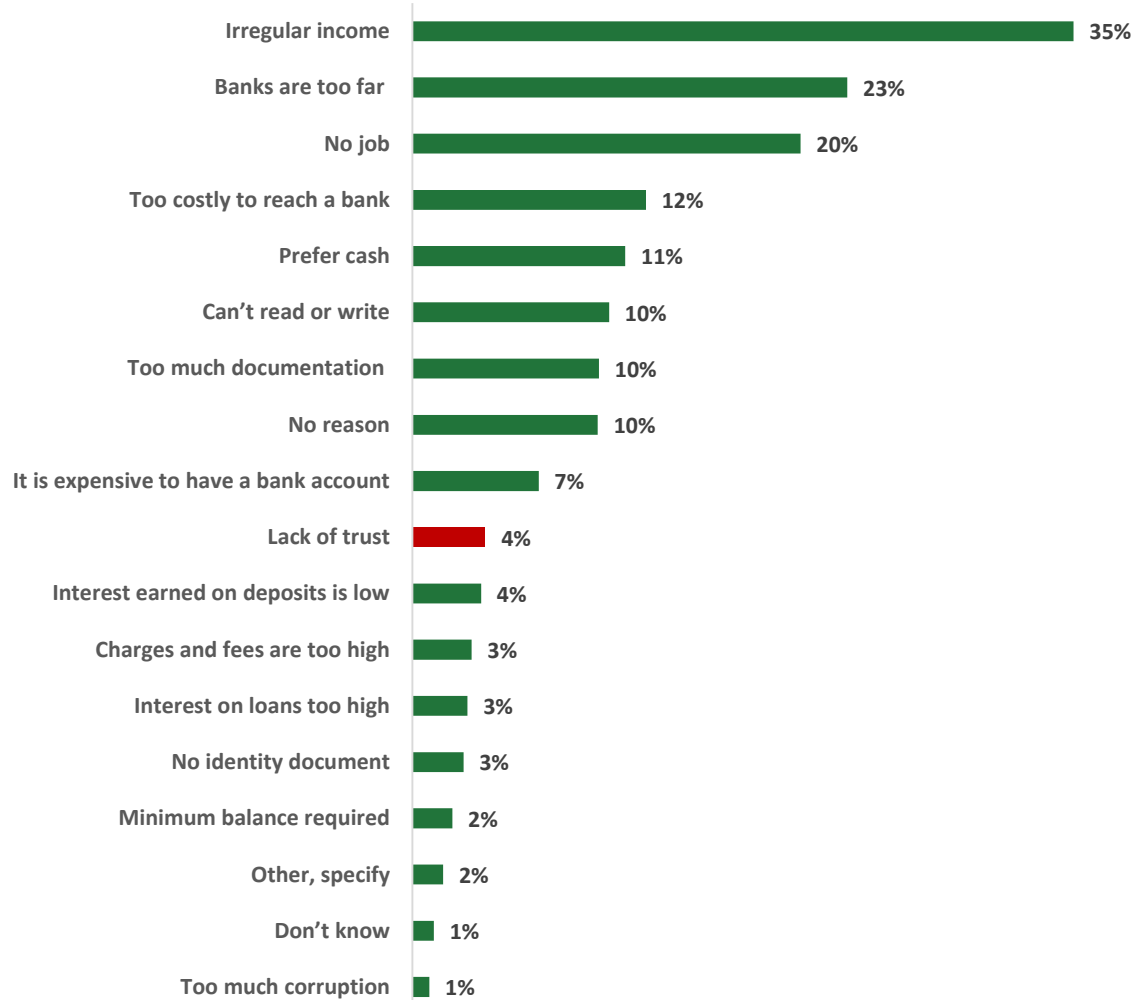
**Traction of mobile money is very low despite the increase of mobile phone ownership of Nigerian adults**

68.6 million Nigerian adults own a mobile phone

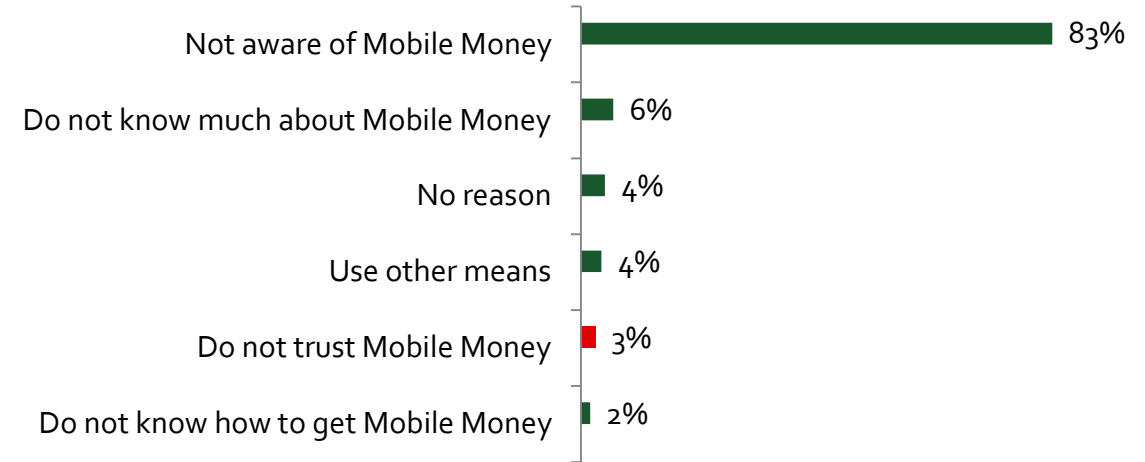


# Trust is one of the considerations in the adoption of formal financial services...

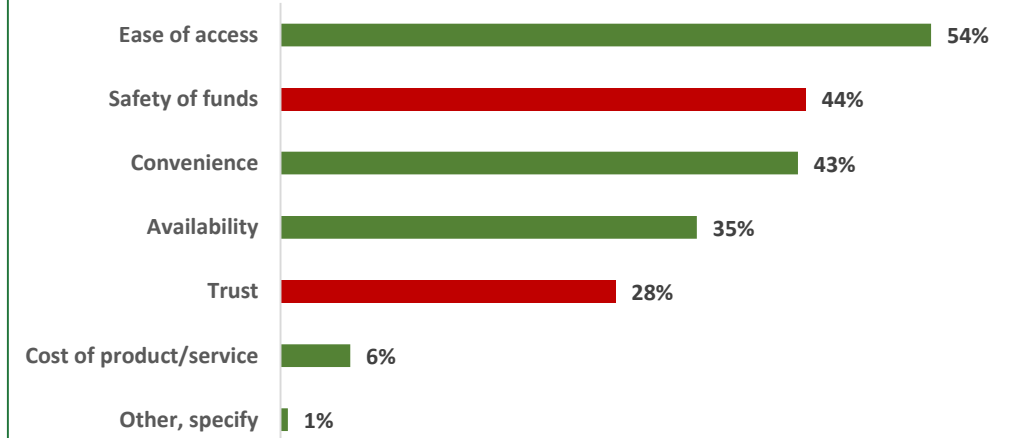
## Reasons for not having a bank account = Unbanked population = 60m



## Do not have/use Mobile Money = 96.3m

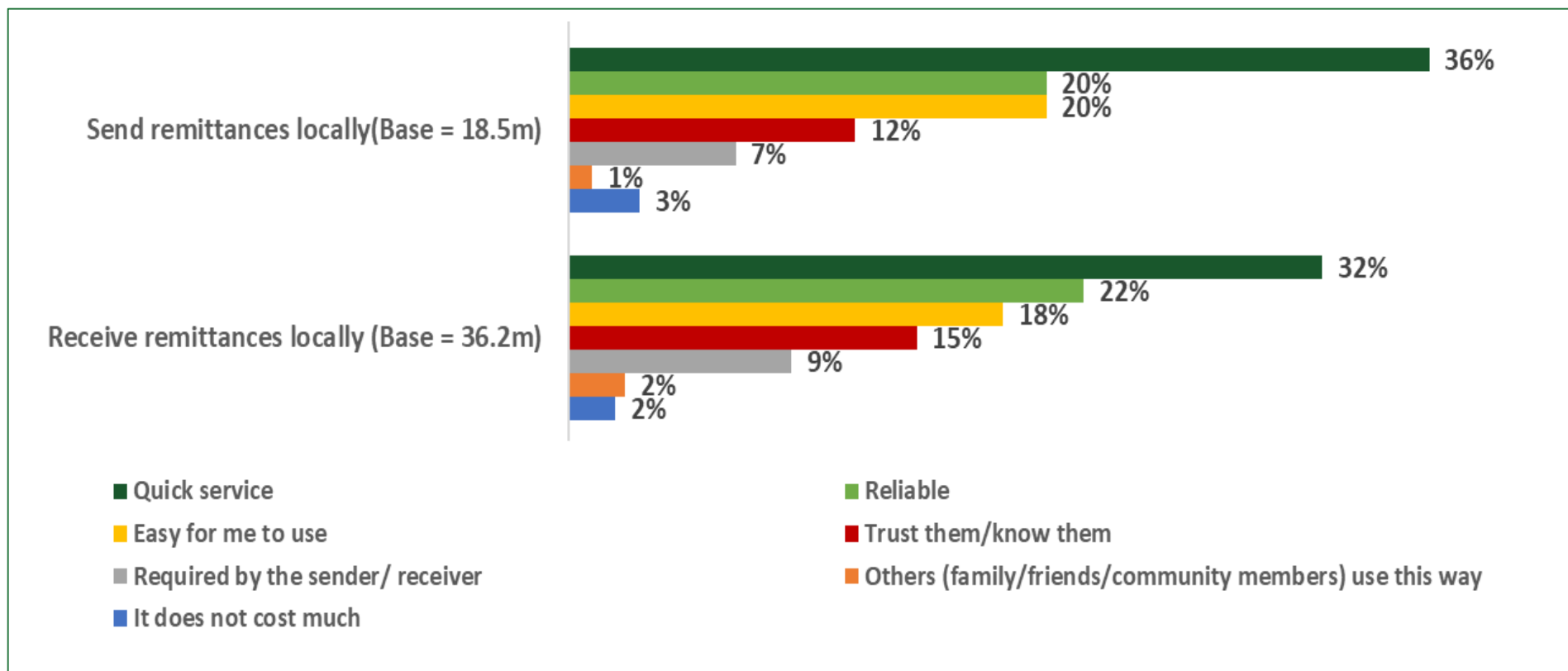


## Why is your preferred provider the most important for managing your finances?



## ... and in the selection of channels for making remittances

Criteria for selecting preferred channel for remittances





# Impact of MFS Fraud on Financial Inclusion

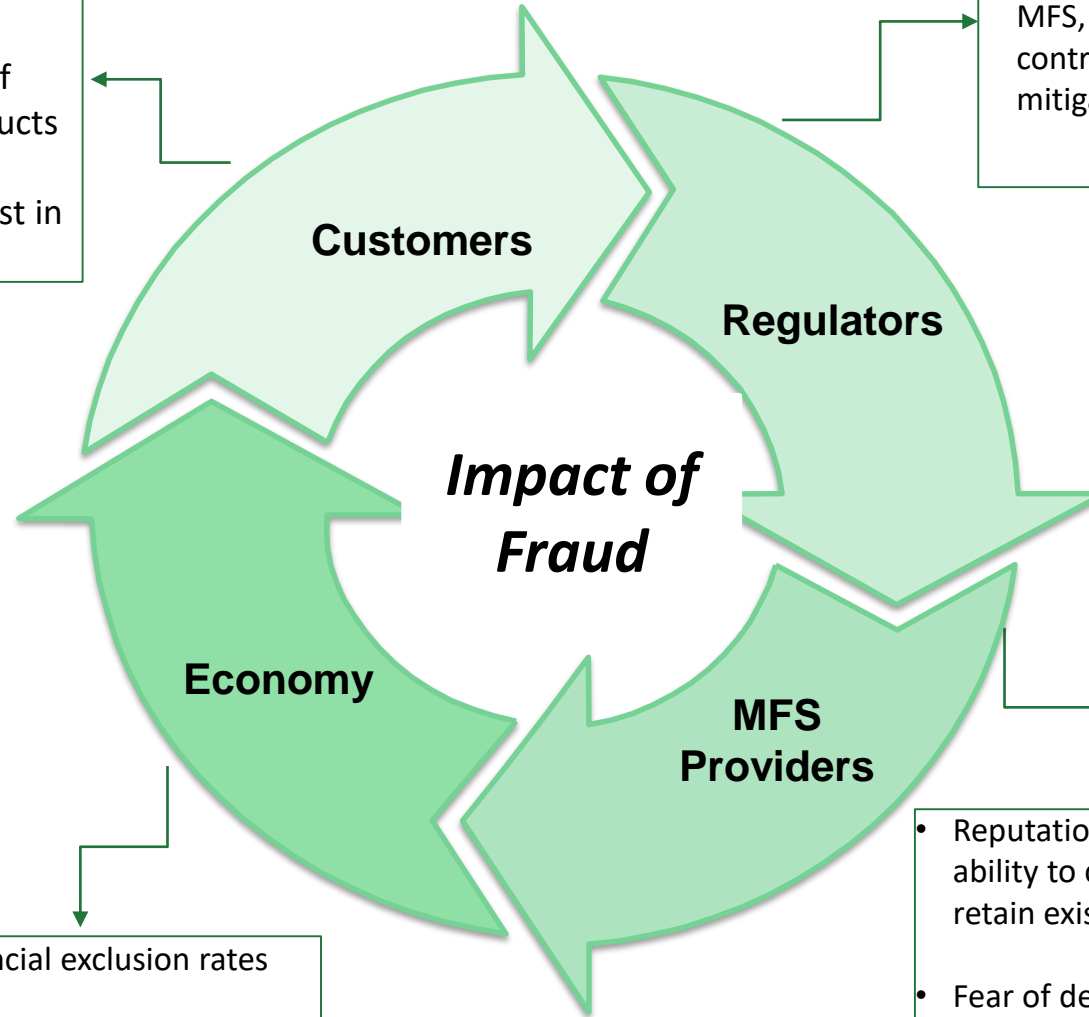
- Loss of income, savings, investments
- Erosion of trust – reducing level of usage of financial products and uptake of new products
- Change in financial behaviour – lose interest in other formal financial services

MFS is arguably the most significant contributor to increased financial inclusion in emerging markets today

It has facilitated access to cheap and reliable financial services to an ever increasing formerly unbanked population segment

Therefore the impact of MFS fraud on financial inclusion is undeniable as it can reduce perceived consumer benefit

- High financial exclusion rates
- Increased level of informal financial activity that cannot be traced/tracked



- Regulators may be less inclined to allow the needed space for innovation to expand and diversify MFS, as they view providers' internal controls as inadequate to detect and mitigate fraud.

- Reputation Damage -affects the firm's ability to compete for new business and retain existing customers
- Fear of developing innovative products
- Loss of revenue, investor's funds
- Reduced agent investment/interest

## Fraud in Mobile Payments – Global View

### Fraud Management Capabilities

- MFS providers seem increasingly complacent, and in some ways even regressed, with respect to their efforts and capabilities regarding mobile channel fraud management

### Key Priorities

- Most operators are more concerned with ease of use than managing security and fraud risk in the mobile channel

### Common Fraud Detection Tools

- Address Verification (AVS), velocity checks and Card Verification Value (CVV) checks, two of which (AVS and CVV) are not very strong in terms of fraud detection



Growth in mobile channel fraud is in sync with the growth in mobile transactions globally

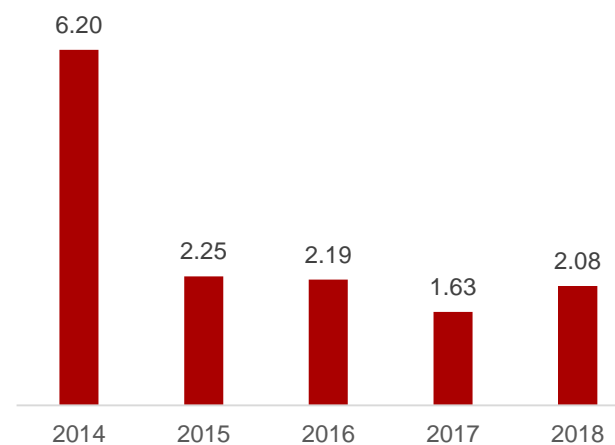
# A five-year trend analysis of fraud in Nigeria shows that the highest fraud volume was recorded in 2018

*Fraud in mobile channels is an intentional and deliberate action undertaken by players in the mobile financial services ecosystem aimed at deriving gain (either in cash or e-money), and/or denying other players revenue thereby damaging the reputation of the other stakeholders*

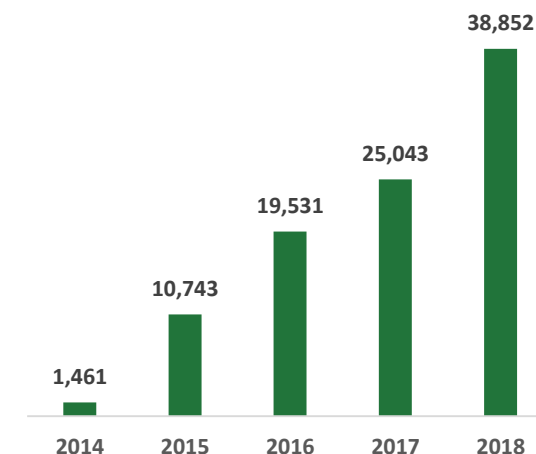
- ❑ The Nigeria Inter-Bank Settlement System (NIBSS) Fraud Landscape in Nigeria report that the 2018 fraud volume is the highest seen in the last four years
- ❑ In 2018, about 89% of all financial services fraud in Nigeria happened through electronic channels while only 11% were non-electronic
- ❑ The industry has noted that there is an alarming rate of fraud perpetuated using mobile channels in the country
- ❑ The regulators have improved their approach towards tackling DFS fraud issues

Year	Fraud Volume	Attempted Fraud Value (N)	Actual Loss Value (N)
2018	38,852	9,047,499,391.29	2,081,090,699.56
2017	25,043	4,034,258,639.07	1,631,680,256.85

Fraud Value (2014 - 2018)  
(N, Billions)



Fraud Volume (2014 - 2018)

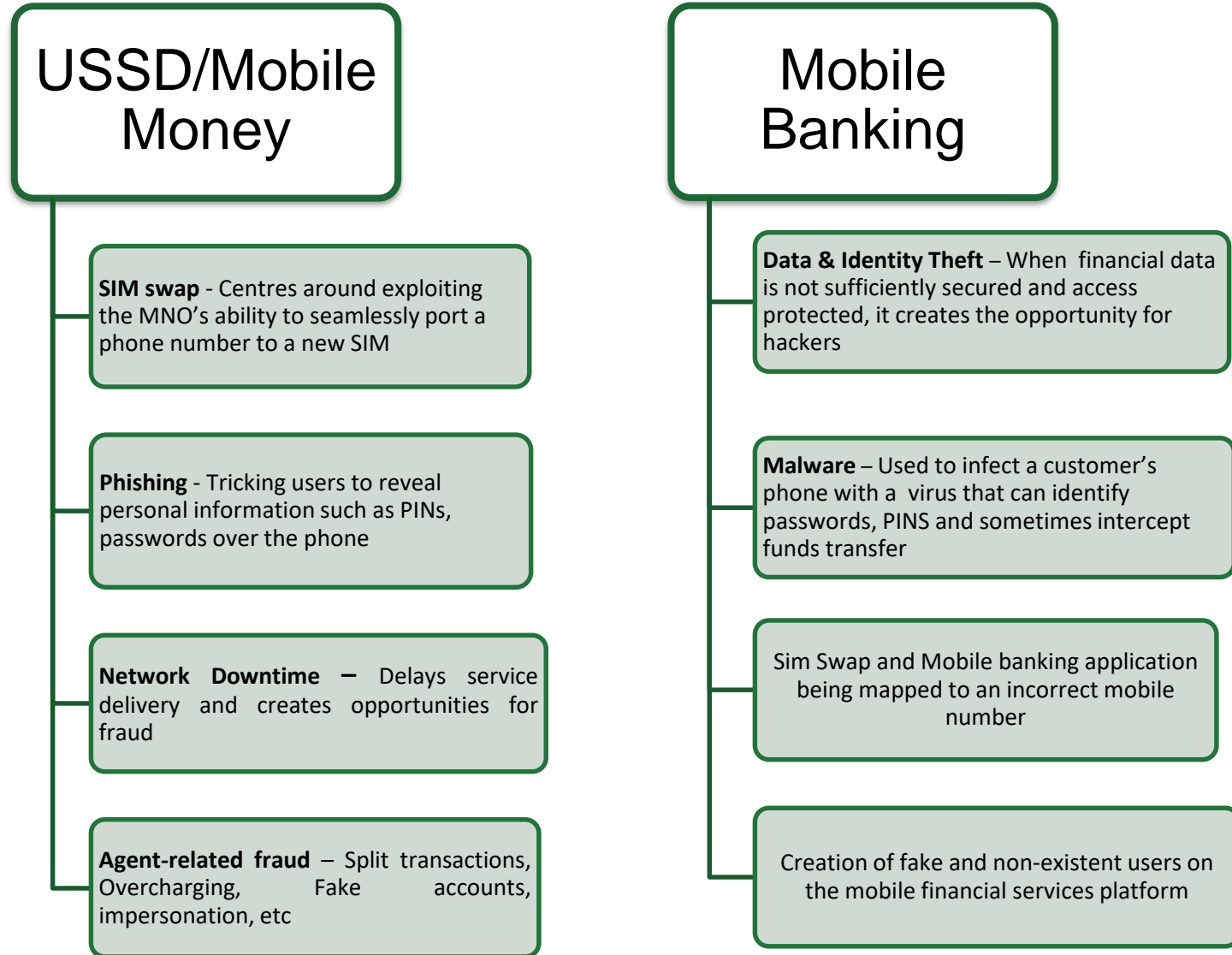
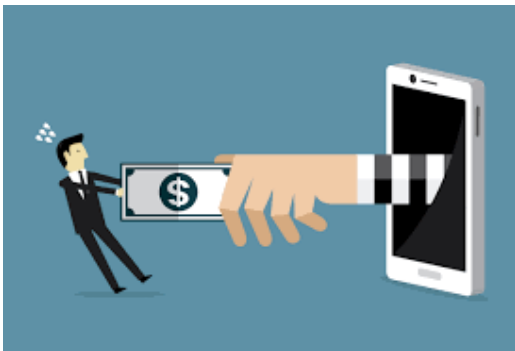


# Overview of fraud landscape in Nigeria shows that the mobile channel has the highest fraud rate

- 2018**
- Mobile channel fraud took the lead in both fraud volume and actual loss value in 2018
- 2017**
- ATM channel reported the highest in both volume and actual loss value, whereas mobile channel was the third highest reported fraud by volume and the second highest reported fraud by actual loss value

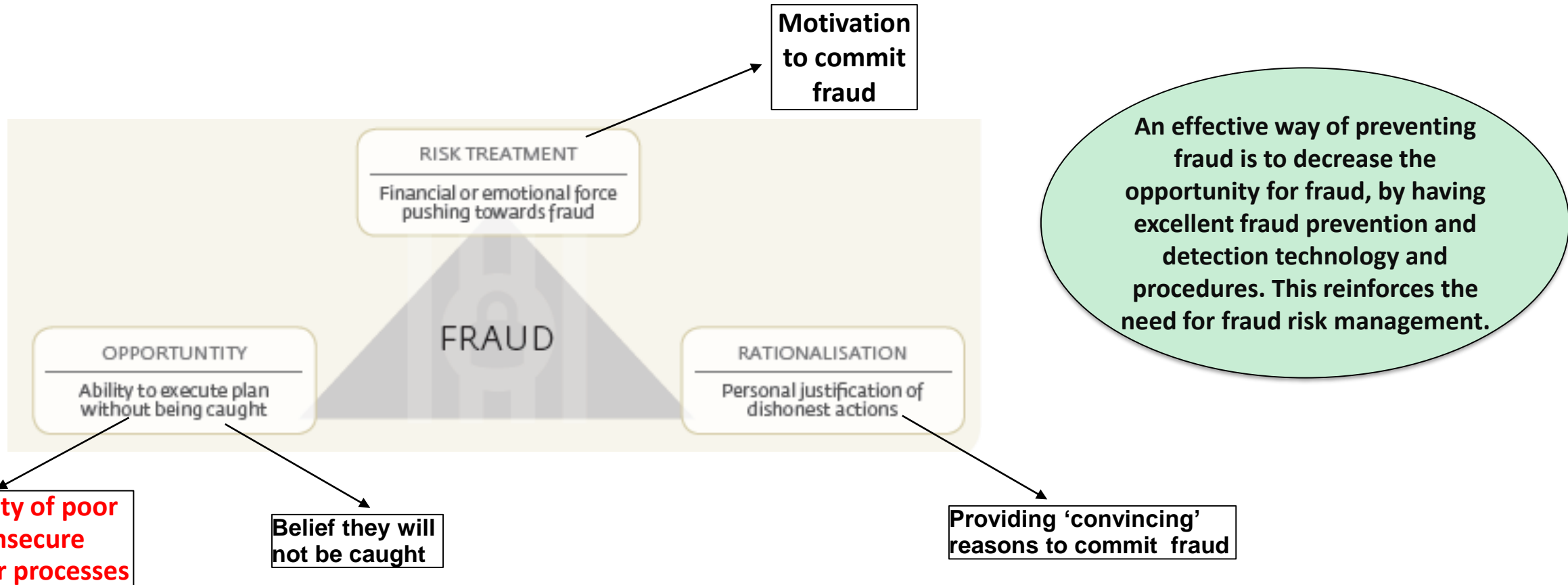
Volume		Value
11,492	Mobile	N599m
9,471	ATM	N497m
1,734	POS	N391m
272	Across Counter	N202m
9,972	WEB	N163m
3,714	Internet Banking	N193m
14	Cheques	N19m
1996	e-commerce	N14m
187	Others	N103m
<b>38,852</b>	<b>Total</b>	<b>N2.08B</b>

# Common Types of MFS Fraud in Nigeria



# Fraud Influencers – The Fraud Triangle

The Fraud triangle is a framework that explains the reasoning behind a person's decision to commit fraud. The fraud triangle provides a useful framework for organisations to analyse their vulnerability to fraud and unethical behaviour



# Building a Comprehensive Fraud Risk Management Framework

An effective fraud risk management framework has 3 key objectives:

- **Prevent** instances of fraud and misconduct from occurring in the first place
- **Detect** instances of fraud and misconduct when they do occur
- **Respond** appropriately and take corrective action when the need arises

**Have a strong foundation** - MFS Providers need to take cognizance of all possible fraud scenarios while developing the products or application.

**Develop a Fraud Indicator Dashboard for robust monitoring leveraging data analytics** - Learnings from analytics in the mobile payments industry (data from DMBs, MMOs, MNOs, etc) can develop a Fraud Indicator Dashboard to help in early detection of red flags

**Effective Consequence Management** – MFS Providers should set the right tone at the top and exercise strong disciplinary action against identified suspects. It is also important to have a sound process to manage customer grievances due to fraud and transfer accountability to the party responsible

# Best practices show that operators should have measures in place that are proactive rather than reactive

## ASSESSMENT & MONITORING



Conduct assessments to understand where fraud could be detected and prevented, determining risk appetite and establishing effective controls

## DATA INTEGRITY



Operators need to develop integrity around customer data as this reveals opportunities for identify theft and fraud

## EDUCATION



Educate customers on best practices and how to identify suspicious behaviour

## RECOURSE & COMPLAINT



If funds are stolen from customer accounts at the fault of the provider, providers must ensure that funds are returned to customers immediately

## INFRASTRUCTURE



Minimise network down time, which creates opportunities for fraud, mainly through offline SIM swaps

## DOCUMENTATION



Develop a Fraud risk register which helps to identify, understand and address an organisation's fraud risks



# THANK YOU

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