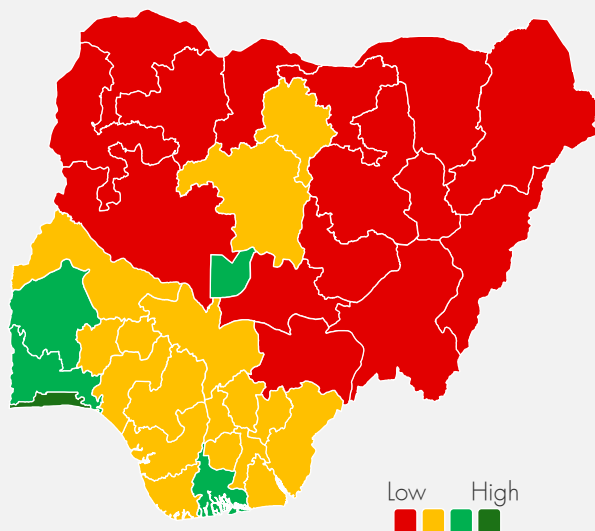


# FinTech Landscape and Impact Assessment Study

2020 Report Executive Summary

# FinTech landscape in Nigeria

## Relative FinTech adoption scale



## No of FinTechs

**200+**  
No of FinTechs in Nigeria



## Funding

**\$560mn**  
FinTech funding in last 3 years



## Top sectors by number of players



**39%**  
Payments



**28%**  
Lending



**11%**  
Savings

## Women in FinTech

**22%**  
Of top 50 FinTechs have  
a female co-founder



**48%**  
Of top 50 FinTechs have  
women in senior management

## 5 imperatives for stakeholders

Build a regulatory  
framework to spur  
innovation in the  
financial landscape

Create pull for digital  
identity

Develop central credit  
infrastructure

Accelerate digital  
infrastructure

Grow the talent  
pipeline

## Long-term Economic impact<sup>1</sup>



**\$3bn**  
potential  
investment



**\$1bn** retail  
banking  
revenue increase



**\$50bn**  
DFS GDP  
potential



## Development goal contributions



Gender  
inclusion



Financial  
inclusion



Extending access to Education,  
Healthcare, Agriculture and Energy

## Multiplier effect



Unlock new business models



Fuel business digitization



Drive job creation



SOURCE: MGI Digital Finance for all 2016, Literature review, customer survey n=215

2. Long-term defined as 5-10 years

# Executive summary

---



The Nigerian FinTech landscape is attractive and growing, with a concentration in Lagos, focused on banked customers and providing payment and lending solutions. However, dynamics are changing – new pockets of growth are emerging driven by changes in consumer behavior, funding sources, and new business models

---



Despite the increased activity in the FinTech sector in Nigeria and the positive multiplier effect, economic impact to date is low, with FinTech activity accounting for only ~1.25%<sup>1</sup> of retail banking revenues in 2019. A concerted effort by all stakeholders to address structural challenges is required to capture a greater share of Nigeria's \$50bn<sup>2</sup> Digital Financial Services opportunity, and mitigate emerging risks as the sector evolves

---



There are a number of actions that could enhance Nigeria's Digital Financial Services landscape, however five of them, if well executed could yield the biggest impact and help drive financial inclusion– Innovation enablement, Digital ID, Credit infrastructure, Digital infrastructure and Technology talent pipeline

1. FinTech revenue as a percentage of total retail banking revenue

2. Assuming growth rate pre-COVID-19

# FinTech definition: A technological innovation in the prevailing model of delivering financial services

## Could be any type of player...

- Incumbents (e.g. Banks, Insurance companies etc.)<sup>1</sup>
- Non-financial services providers (e.g. tech companies)
- Startups/New entrants

## ...and delivering a wide range of financial services

- Payments & Transactions
- Accounts
- Savings & Investments
- Lending & Financing
- Life insurance
- Non-life insurance

## Playing in any part of the value chain...

- B2B
- B2C
- C2C
- Infrastructure

2

3

## Leveraging technology...

- Blockchain
- Data analytics
- APIs
- Cloud

4



1. Focus of this document will be in non-incumbent players that are typically startups and early stage companies



# Content

---

1

## The Nigeria FinTech Landscape






2

FinTech impact assessment

3




Recommendations

# The Nigerian FinTech market is undergoing dynamic development

	Description	Key indicators
<p>FinTech is a fast-growing market</p> 	<ul style="list-style-type: none"> <li>Nigeria is home to 200+ FinTechs</li> <li>FinTech activities are primarily focused on payments with increased activities in the lending and savings space</li> </ul>	<ul style="list-style-type: none"> <li>Emergence of 200+ FinTechs addressing various consumer pain-points</li> </ul>
<p>Traditional banks are reinventing themselves in response</p> 	<ul style="list-style-type: none"> <li>Some banks have launched fintech solutions, through inhouse innovations or collaboration opportunities with FinTechs</li> </ul>	<ul style="list-style-type: none"> <li>First Bank's FirstMonie facilitated the deployment of 200,000+ agents across Nigeria</li> <li>GTB's Quickcredit provides access to loans up to N5 mn in 2 minutes</li> </ul>
<p>The scope of FinTech investment keeps growing</p> 	<ul style="list-style-type: none"> <li>FinTech investments in Nigeria grew 197% over the past 3 years, driven primarily by foreign investors, particularly Chinese investors</li> </ul>	<ul style="list-style-type: none"> <li>2019 investments include OPay \$170 mn and Interswitch \$200 mn</li> </ul>
<p>Nigeria is becoming an entry point to Africa and a testing bed for innovation</p> 	<ul style="list-style-type: none"> <li>Foreign-backed fintechs have a pan-Africa expansion strategy, with Nigeria as their entry point</li> <li>Nigerian fintechs are increasingly exporting their business models to other emerging markets</li> </ul>	<ul style="list-style-type: none"> <li>Migo scaled its business to Brazil</li> <li>Paga is expanding to Mexico</li> </ul>
<p>The regulator is pushing a digital agenda</p> 	<ul style="list-style-type: none"> <li>The regulator has proactively launched initiatives to drive financial inclusion and push for a cashless economy</li> </ul>	<ul style="list-style-type: none"> <li>Creation of SANEF shared agent network</li> <li>Issuance of PSB licenses to drive rural penetration of financial services</li> <li>Recent reduction in electronic payment charges</li> </ul>

# Consumers are facing challenges across the financial service value chain that are currently unmet by incumbents...

NOT EXHAUSTIVE

Segment	Customer pain-points across financial services
BOP and mass 	<ul style="list-style-type: none"> <li>▪ Lack of / limited access to financial services products</li> <li>▪ Pricing of products is greatest barrier to adoption</li> </ul>
Youth 	<ul style="list-style-type: none"> <li>▪ Lack of tailored, products to cater to needs of population (account benefits, saving)</li> <li>▪ Unaffordable rates for financial services products (lending, insurance)</li> </ul>
Affluent 	<ul style="list-style-type: none"> <li>▪ Poor user experience on various platforms</li> <li>▪ Limited availability of value added service such as advisory / estate planning</li> </ul>
SME owner 	<ul style="list-style-type: none"> <li>▪ Limited access to lending products at favourable rates</li> <li>▪ Limited access to POS terminals due to high volume requirements</li> </ul>

Fintech offerings to address customer pain points

Fast, affordable payments
























Cash in, cash out

Flexible savings & investments

Quick loans

# ... This has prompted FinTechs to develop innovative value propositions across the financial services value chain to address these unmet need

















NOT EXHAUSTIVE

Products	Sub-category	Core value proposition	Example players
Payments	Wallets	Easy to sign up, <b>easy to use stored value wallets</b> using mobile phones and incorporating <b>key use cases</b> for customers across transportation, food and digital services	  
	Processors	<b>Simplified channels</b> to allow MSMEs and corporates receive online payments from customers	  
	Remittances	<b>Easy, instant cross-border transfers</b> at a fraction of cost and time of conventional players- often leveraging cryptocurrency	  
Savings	Savings	Automated, disciplined and <b>high return savings</b> for middle class customers and millennials	 
	Wealth management	Offer customers <b>investment options in diverse industries</b> on online platform at attractive rates (significantly higher than banks savings accounts)	  
Lending	Retail lending	<b>Instant, unsecured, short term loans</b> to retail customers leveraging alternative credit scoring algorithms and data	  
	MSME lending	<b>Quick, unsecured working capital loans</b> to MSMEs with minimal documentation	
	Lending infrastructure	Lending platform for banks and other lending players to <b>simplify lending process</b> and provide risk assessment	 
			  

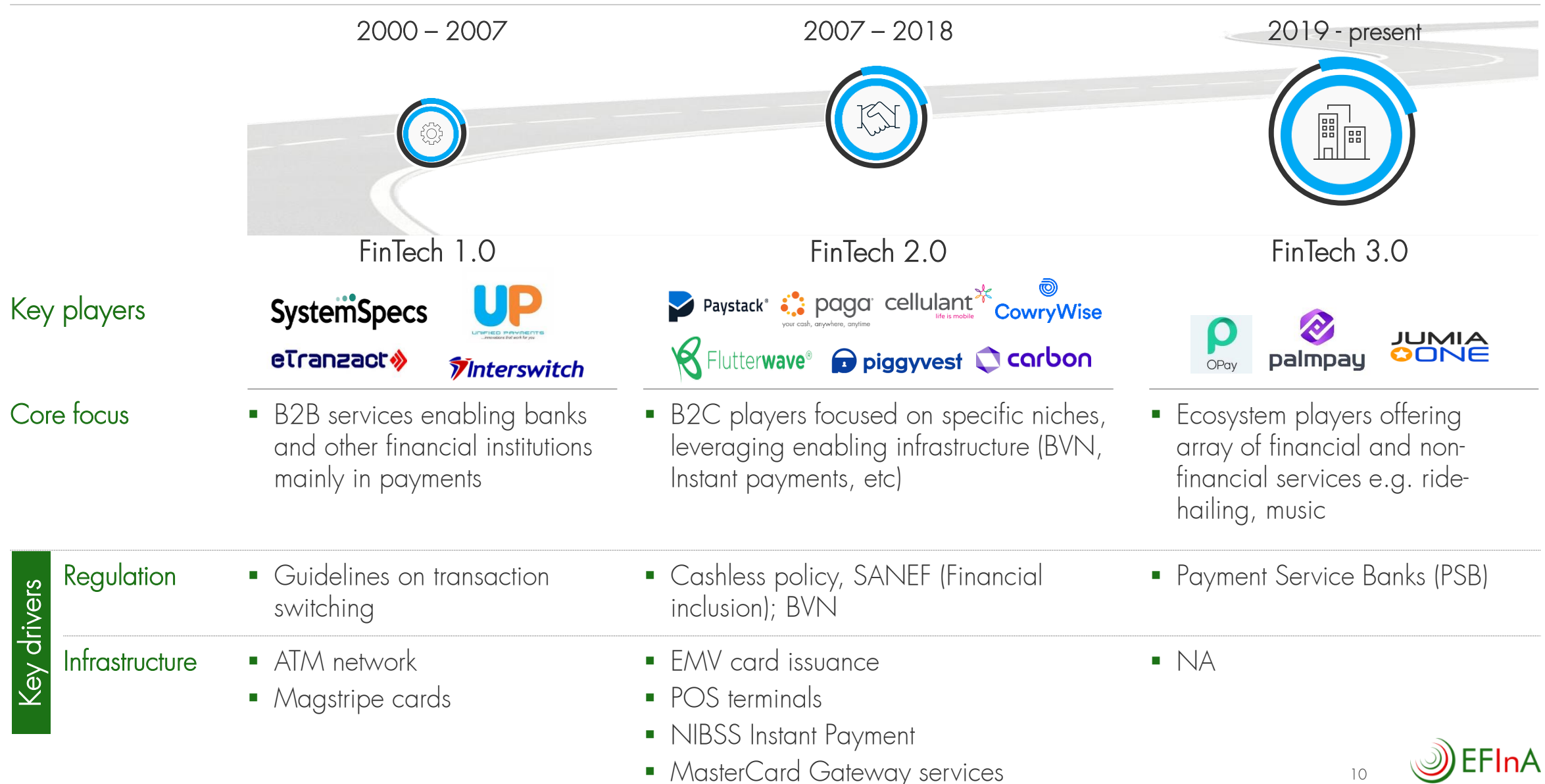
# Increased FinTech activity is driving investor interest in Nigeria; ~ \$600+ mn has been invested in 16 Nigeria FinTechs over multiple rounds

NON EXHAUSTIVE

Cumulative equity funding of fintechs in Nigeria  
USD Mn, 2014-Jan 20202

			Investors for first 2 rounds
	Interswitch	211	Adlevo Capital, Helios Investment Partners
	OPay (Operapay)	200	Meituan-Dianping, IDG Capital
	Flutterwave Inc.	55	CRE Venture Capital, VC FinTech Accelerator
	PalmPay	40	MediaTek, NetEase, TECNO
	Paga	35	Tim Draper, Omidyar Network, Capricorn ..
	Mines.io	17	XSeed Capital, Nyca Partners
	Carbon	16	Net1 UEPS Technologies, Inc.
	Luno	14	Naspers
	Paystack	12	Y Combinator
	i.Sec	10	Synergy Capital
	Lidya	8	Accion Venture Lab. Newid Capital
	SureRemit	7	Hashed
	TeamApt	6	Quantum Capital Partners
	Kudi	5	Y Combinator, Eric Nadalin
	Kuda	2	Haresh Aswani , Ragnar Meitern
	BuyCoins	1	Microtraction, Y Combinator
	~20-25 fintechs	4	

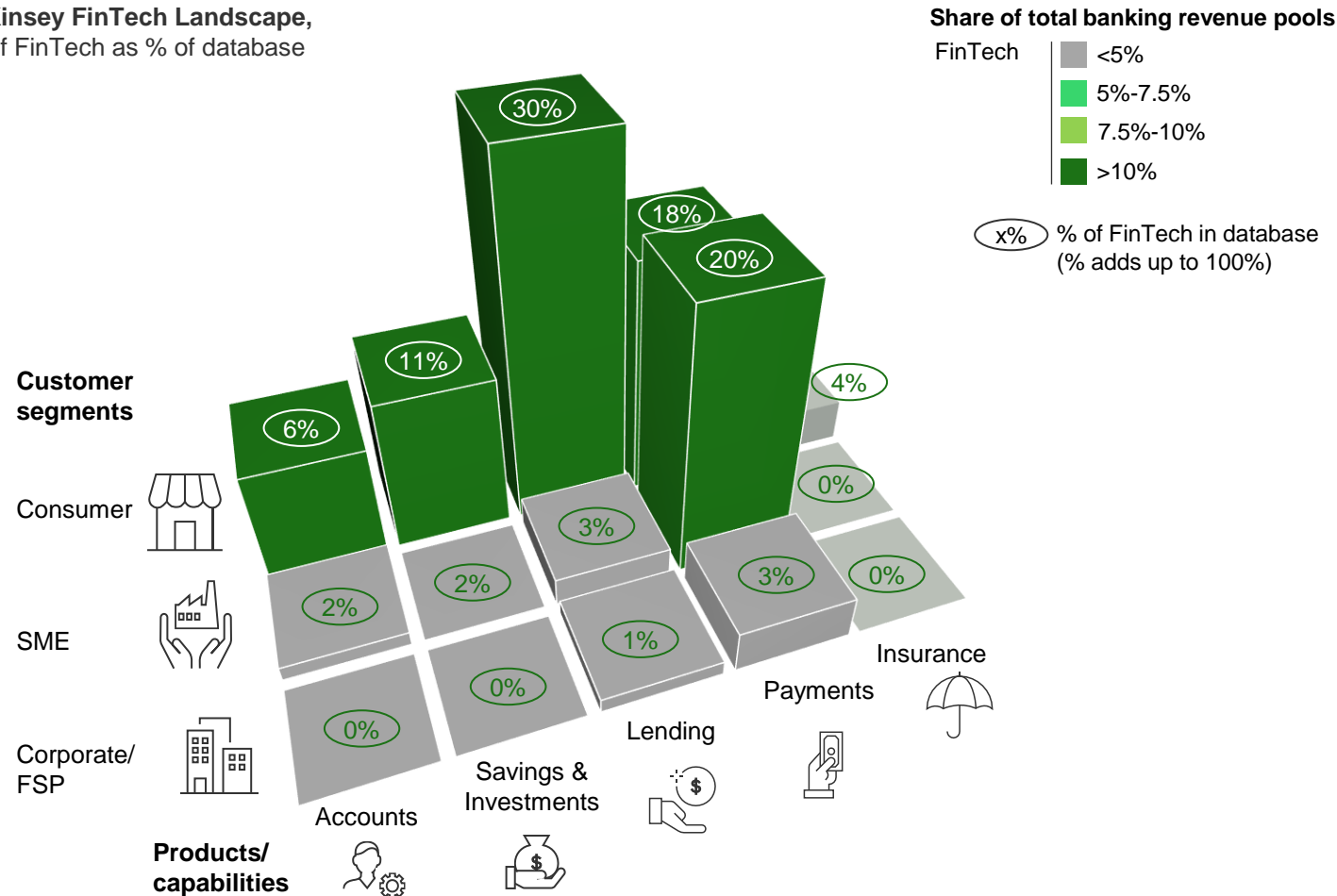
# The FinTech landscape has evolved from focusing on B2B to a growing number of B2C-focused and ecosystem players



# Nigerian FinTechs are primarily focused on payments and consumer lending across formal and informal segments

ESTIMATES

McKinsey FinTech Landscape,  
No of FinTech as % of database



## Key insights

Payments have served as the entry point for most FinTechs

- ~90% of customer touch points are in payments
- Lower barriers to entry in payments
- ~15% of revenue pools are in payments

Lending has also seen growth in FinTech activity

- Large unmet demand
- Leverage of analytics on available customer data (e.g. phone data, payment data) to determine lending risk
- Reduced barrier to entry (players leveraging MFB and State Money Lender Licenses)

Rising activity in wealth management:

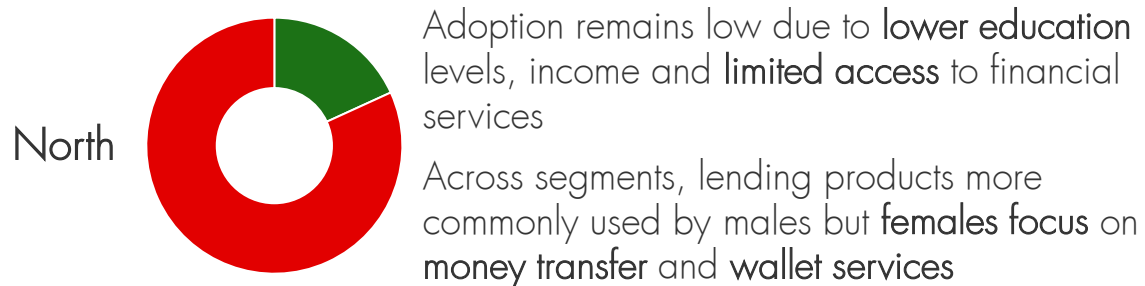
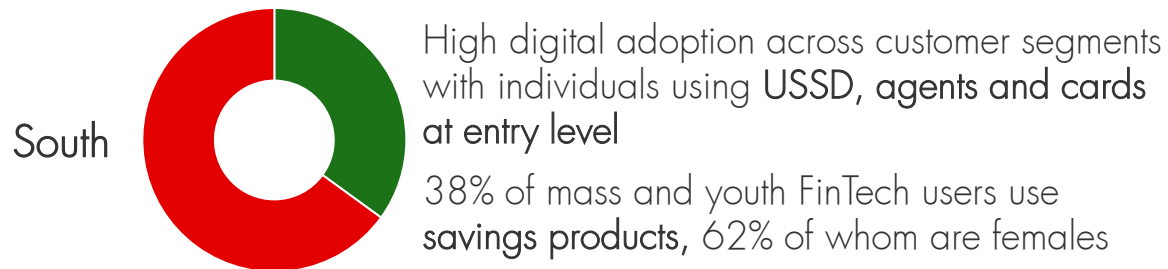
- Unmet need for better return
- Payments disruption enabling increased customer control over their money

Gaps still exist in “non-low hanging fruits” areas, specifically MSME lending and insurance

# FinTech adoption is highest in Lagos and growing in the South, however, it remains nascent in the North

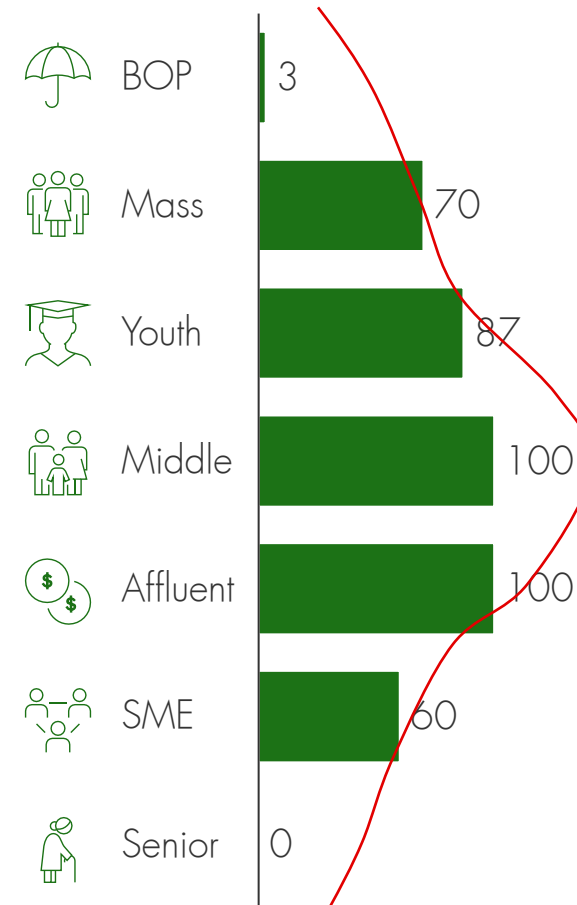
## Adoption across Nigeria

■ Adoption ■ Lack of adoption



## Adoption across segments
















Index relative to middle/affluent segment



## Factors driving adoption

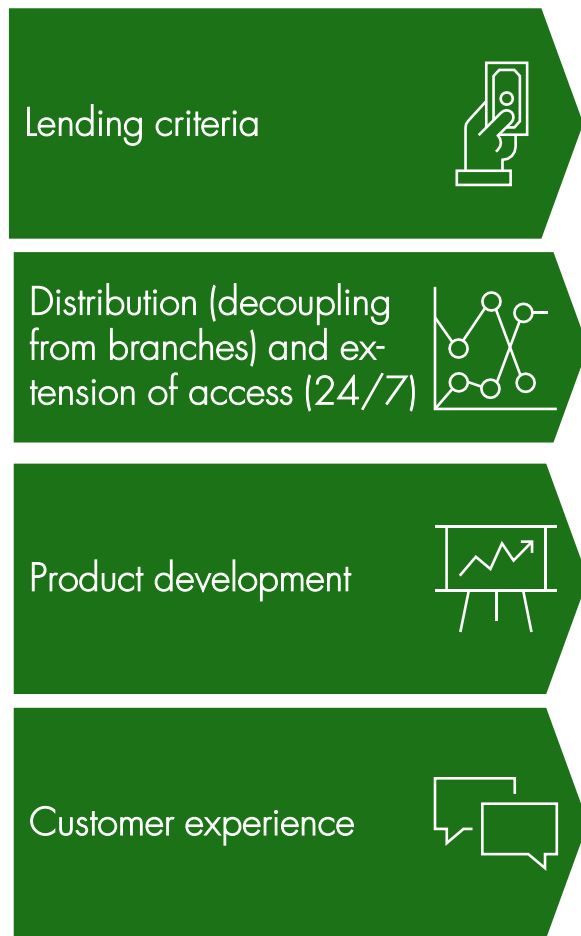
- A** Implementation of relevant use cases
- B** Growing trust in FinTechs
- C** Increased referral programs

# Looking forward, we expect all three fintech archetypes to co-exist in Nigeria.....

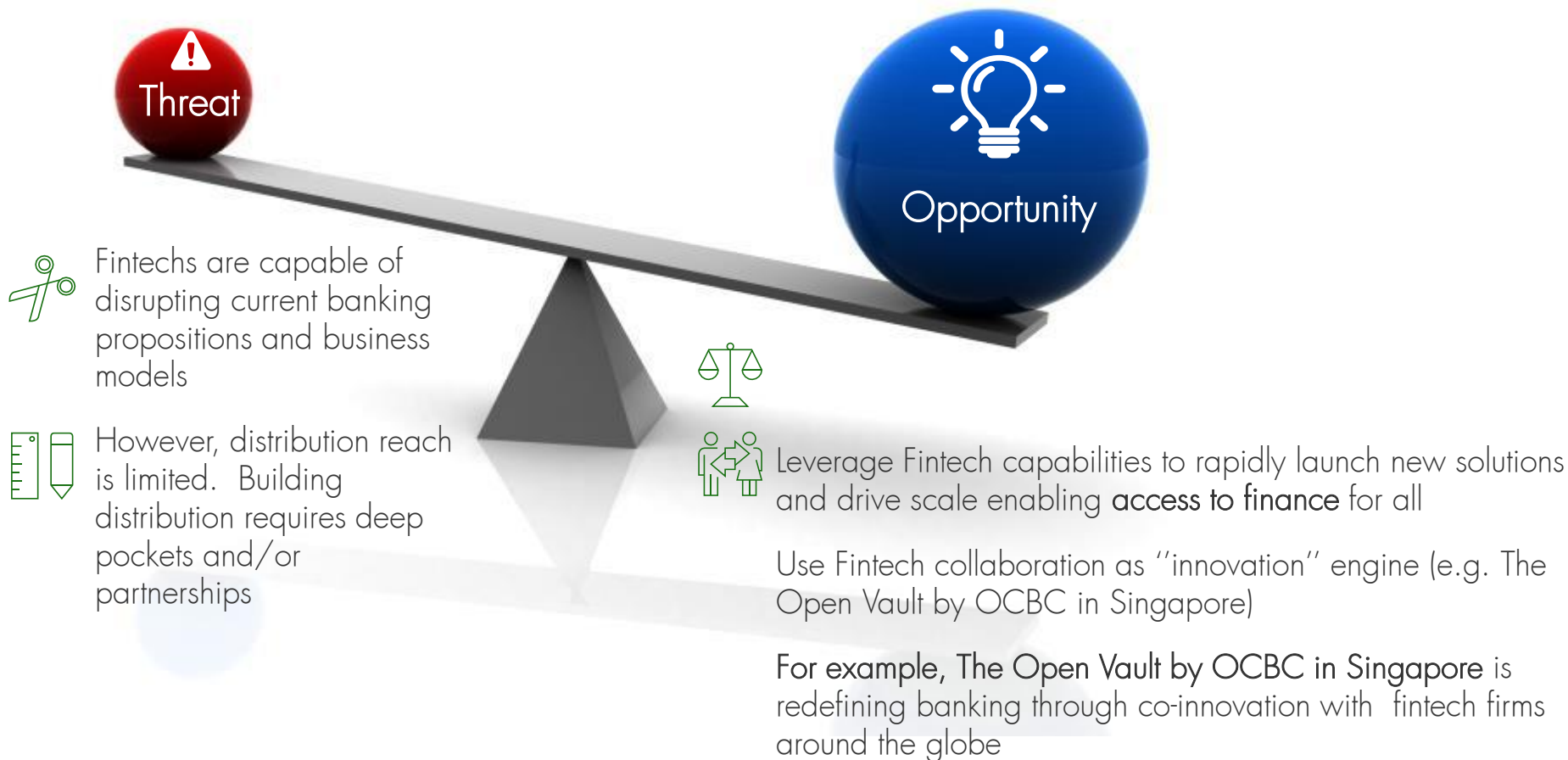
Description	Nigerian examples
<p><b>B2B enablers</b> (Fintech 1.0)</p> <ul style="list-style-type: none"> <li>FinTech focused on <b>enabling traditional players/incumbents</b> to improve their offering</li> <li>Could <b>start out as B2B</b> or have <b>pivoted from a B2C model</b> with a great product but limited traction and challenging economics, Most valuable B2B players will likely focus on providing infrastructure to market participants</li> <li>Global examples include Mbiz in in Indonesia and Red Carpet in India</li> </ul>	  
<p><b>Mid-sized niche players</b> (Fintech 2.0)</p> <ul style="list-style-type: none"> <li>Longer tail of <b>medium sized businesses</b> who are focused on <b>executing individual verticals in products</b> (e.g. payments, savings) or geographies (e.g. Northern Nigeria) or segments (e.g. SMEs)</li> <li>Experience in other markets suggest, these type of players thrive in their domain of expertise, solve distinctly local problems and are often <b>acquisition targets</b> for the larger players</li> <li>Global examples include Transferwise</li> </ul>	       
<p><b>Ecosystem orchestrators</b> (Fintech 3.0)</p> <ul style="list-style-type: none"> <li><b>Large, deeply funded players</b>, operating as a platform/superapp that acts as a gateway for customers to a <b>wide range of services beyond financial services</b> (e.g. transportation)</li> <li>These type of players could also be 'TechFin'- technology companies with existing customer bases that offer <b>financial services</b> as an <b>add-on offering</b></li> <li>Global examples include Alibaba and Tencent in China</li> </ul>	   

# .....with FinTech innovation creating more opportunities than threats for incumbents

Nigeria FinTechs have driven technology enabled innovation around four areas....



... these themes can be leveraged by incumbents to drive adoption at scale



# As the Nigerian financial services market evolves, banks are adopting new strategies to remain competitive

- Build partnerships with FinTechs, opening up their infrastructure for FinTechs to integrate and drive innovation
- E.g. Ecobank hosts an annual fintech challenge; Access bank's Fintech Foundry funds and accelerates the growth of Fintech startups



- Reinvent themselves leveraging digital technologies to change operating model and deliver new proposition to the market distinct from existing mode
- E.g. Wema Bank built ALAT, the first digital bank in Nigeria



## Strategic options for incumbents

### A Build partnerships

### D Compete

- Compete with different FinTech players as well as industry peers with Fintech propositions
- E.g. First Bank's FirstMonie to drive agent banking and GTB's Quickcredit for loans in just 2 minutes



### B Reinvent yourself

### C Acquire

- Acquire/ merge with FinTechs as a means to capture synergies and drive scale



# Content

---

1

The Nigeria FinTech Landscape

2

**FinTech impact assessment**

3

Recommendations

# In the long term (5-10 years), FinTechs can create impact on three broad dimensions – economic impact, development goals, and multiplier effect

FinTech activity in Nigeria could impact the economy by:

- Expanding the revenue pools by ~18% in additional retail revenues
- Attracting up to \$3bn in foreign direct investment from global investments in FinTech
- Contributing to the Digital Financial Services GDP uplift of \$50bn by 2025 driven by increased productivity, increased capital and increased labor hours from digitization
- Enabling increased consumer consumption and MSME growth through innovation on new lending models



Unlock economic impact

Increase participation & accessibility across development goals



Digital financial inclusion can positively impact the livelihood of Nigerians by:

- Providing financial service products to rural communities and unbanked populations
- Enabling digital and financial inclusion of women which drives increased spending on education, healthcare and raised quality of human capital in the economy
- Leveraging technology to increase coverage extension through pay-per-use and lower cost solutions in education, healthcare, agriculture, etc.



Multiplier effect

Increased FinTech activity could indirectly impact the economy by:

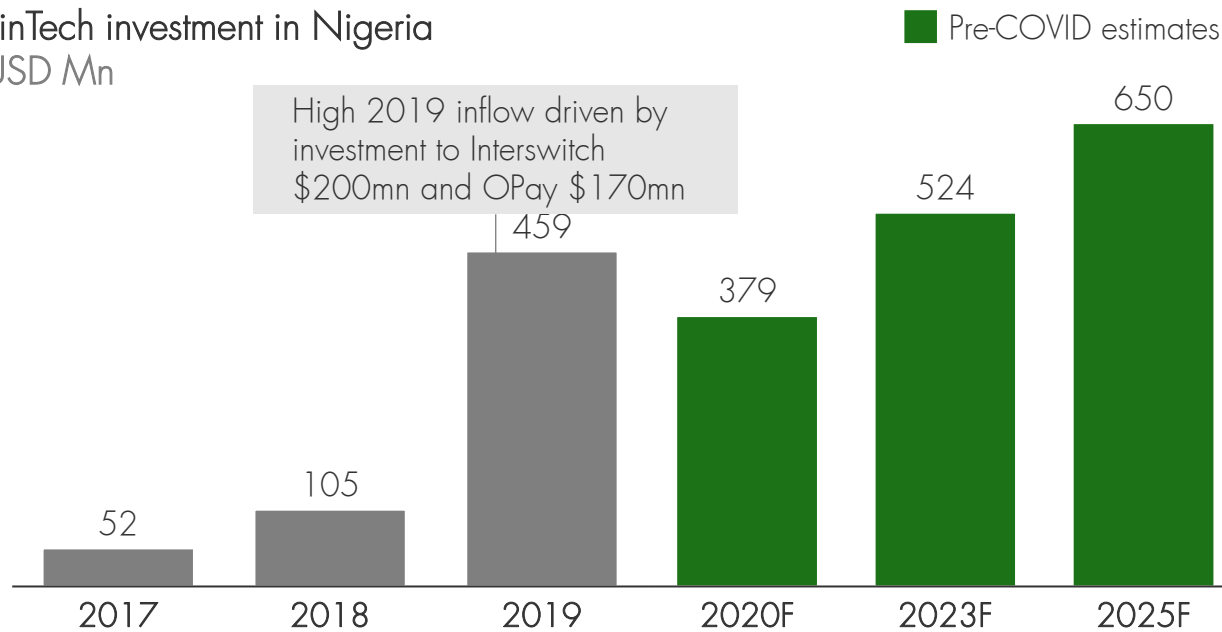
- Unlocking new business models beyond financial services (e.g. logistics)
- Fueling the growth of e-commerce
- Increasing job creation and STEM talent pipeline

# FinTechs could add up to ~\$3bn through investments into the economy and ~\$1bn in additional revenues to the financial services industry in the long term



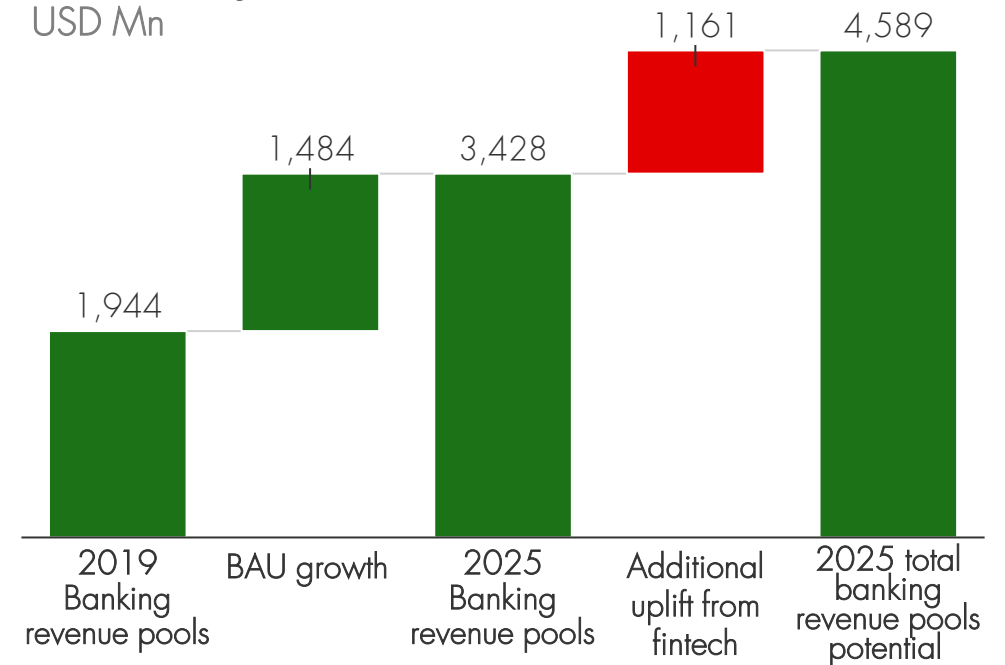
FinTech have accounted for ~10% of direct investment into Nigeria from 2017-2019 and can contribute pre-COVID -19 estimates of up to \$3bn<sup>2</sup> ....

FinTech investment in Nigeria  
USD Mn



... with potential impact to increase retail banking revenues by ~\$1bn by 2025

Retail banking revenues  
USD Mn



- Payments have the potential to financial survives revenues \$1bn driven by FinTech activities
- While forward funding projections depend on the complex interplay between economic activity, investor sentiment and evolution of the COVID crisis, we expect to see a downward trend in Nigeria, similar to global trends

1. Payments, Savings, Lending (excludes wealth management)

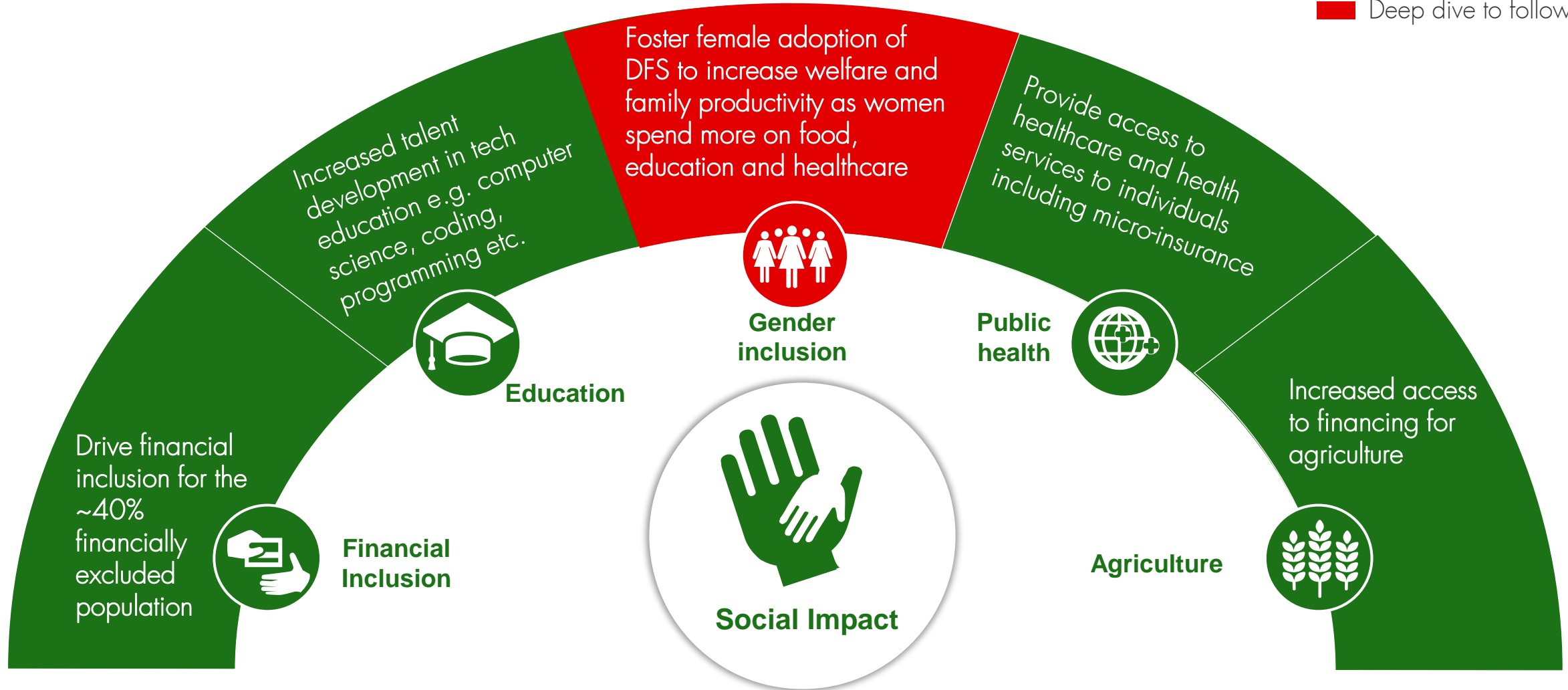
2. Sum of \$3bn includes projected figures on chart for years 2020, 2023 and 2025 and figures for 2021- \$422mn, 2022- \$470mn and 2024-\$583mn

Source: Nigeria Bureau of Statistics, McKinsey Global Banking Pools, team analysis,

# FinTech penetration will boost human capital development



■ Deep dive to follow





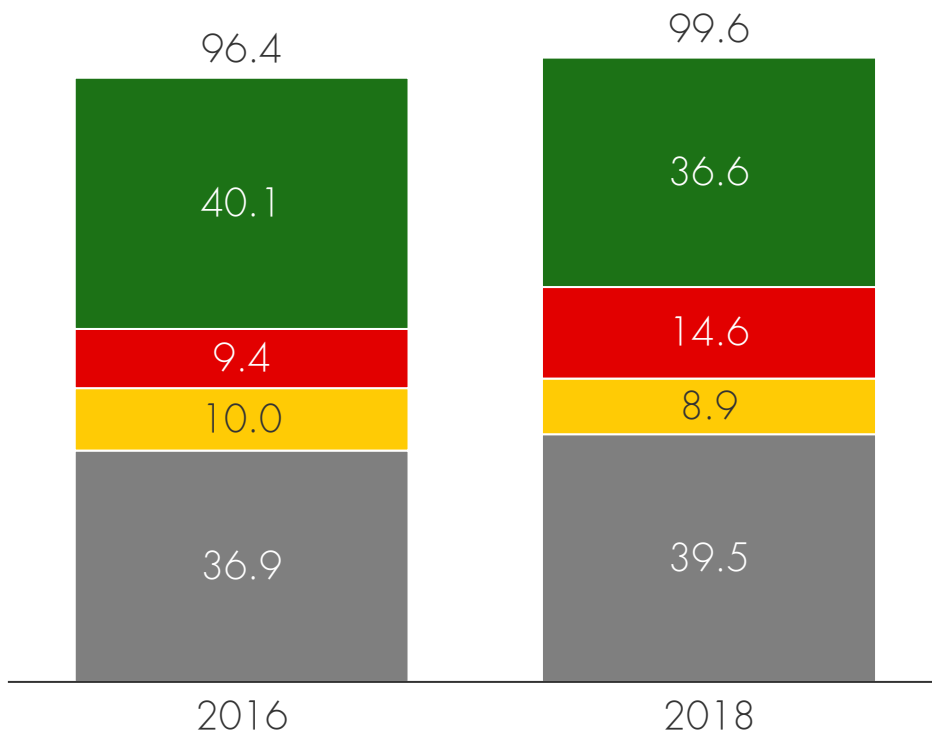
# Nigeria still faces a significant financial inclusion challenge

Almost 40% of Nigerians are financially excluded...

Size of banked and unbanked population in Nigeria

Millions of people

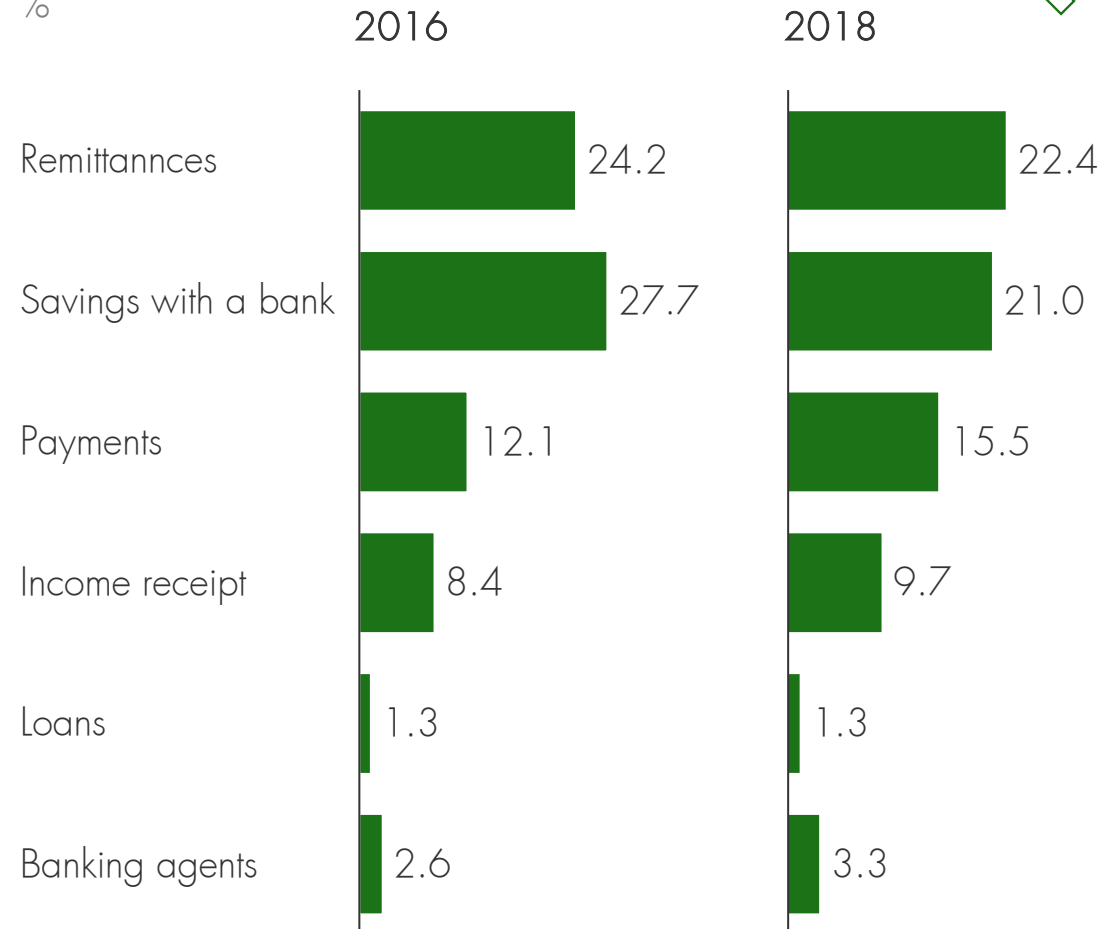
■ Financially excluded  
■ Informal only  
■ Formal other  
■ Banked



...and majority of the banked are also underbanked

Share of services used by banked population

%



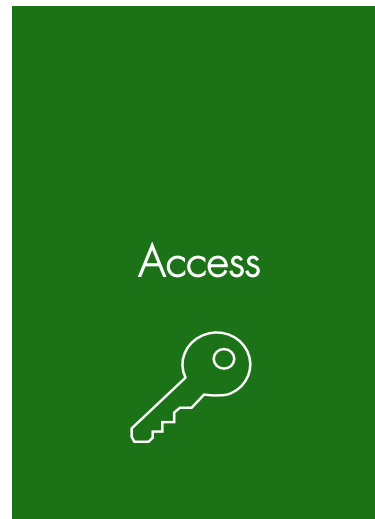


# There are 4 key levers through which FinTech are driving financial inclusion (1/2)

## Key Levers

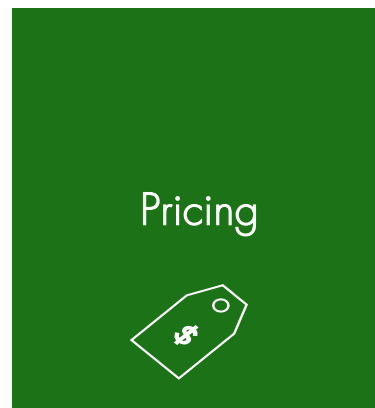
## Description

## FinTech Impact



- Financial products and services within **easy reach** of all segments of the population

- FinTech have increased access through new savings and lending models:
  - Access to Savings
    - Over 1 million customers saving on platforms like Piggyvest & Cowrywise with 60%-70% being first time savers
  - Access to Lending
    - Over 3 million customers with increased access to lending through FinTech such as Carbon and Migo
    - Over N50 billion loans disbursed annually through FinTech such as Carbon and Migo



- Financial affordability and ability of products to accommodate various income/economic groups

- FinTech have increased product affordability through reduced charges and cheaper transfer fees:
  - FinTech tend to be 50%-80% cheaper than traditional players in transfers, bill payments and airtime purchase
  - FinTech are offering 2-3X the interest rates on savings compared to traditional players



# There are 4 key levers through which FinTech are driving financial inclusion (2/2)

## Key Levers

## Description

## FinTech Impact

Product  
design/  
innovation



- Design of financial products that cater to the needs of various segments of the population across culture, religion, gender, geography etc

- FinTech have led innovation in 3 out of 5 product areas, spurring imitation from traditional players:
  - Savings & Wealth Management:
    - Disciplined savings models through FinTech like Cowrywise
    - Digitization of Cooperative savings through FinTech like Riby
    - Digitization of Esusu models through FinTech like Bankly
  - Lending
    - Aggregation of smartphone data points to disburse documentation and collateral free loans e.g. through Carbon
  - Payments
    - Online IVRs in various languages e.g. through Softcom
    - Migration of customers to wallets via lifestyle use cases e.g. Opay

Education  
(perception)



- Education of consumers on the needs and benefits of financial products and services

- A few FinTech are making modest efforts at consumer education, with significant room for improvement:
  - Lending:
    - Free credit reports (e.g. on Carbon) educating consumers on credit health
  - Savings:
    - Educating consumers on maintaining financial health e.g. Piggyvest's WAEC score enlightens users on their saving habits and how they can improve

# Female participation in FinTech remains low in Nigeria and adoption is concentrated in payments and wallet offerings



Despite a low number of female-founded<sup>1</sup> companies in Nigeria, 48% of FinTech have women in senior management positions

Female founders

**22%** of top 50 FinTech<sup>2</sup> have female co-founders



Women in senior management<sup>3</sup>

**48%** out of top 50 FinTech have women in senior management position



FinTech funding >\$1mn

**Only 2 companies with female co-founders<sup>4</sup>** have raised \$1mn+ in 2018-2019



FinTech adoption is lower for women<sup>5</sup> in Nigeria relative to men and concentrated in low sophisticated products

Female adoption of FinTech<sup>6</sup> for mass and youth, %

Rationale for low adoption

Accounts/  
wallets

35%

Payments

59%

Savings

4 (4%)

Lending

2%

Only 1<sup>7</sup> out of the top 30 FinTech in Nigeria has designed a product specifically for women

Companies do not create products to solve specific women's needs

1. Based on interviews with various stakeholder and team analysis on top 50 FinTech

3. Senior management includes partners and executive positions

5. Based on 215 customer interviews across Nigeria

4. Publicly announced funding of FinTech in Nigeria

6. Use at least one FinTech product

7. Carbon

2. Determined based on Weetracker and Britter Bridges reported FinTech, team analysis

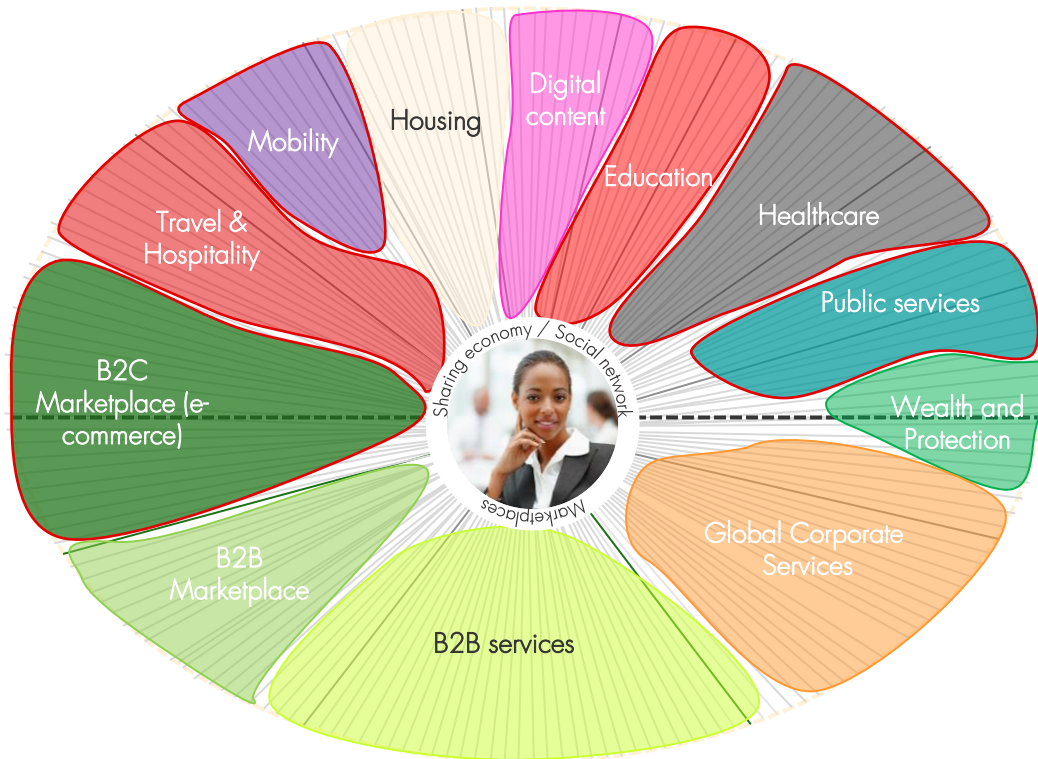
# Fintech solutions could create a multiplier effect on the economy across multiple sectors



NOT EXHAUSTIVE

□ Areas that could be impacted by increased DFS

Twelve distinct ecosystems<sup>1</sup> have been identified



In Nigeria, FinTech impact is already observed across a few sectors



## Travel & Hospitality

New online business models leveraging digital payment solutions (e.g. WAKAnow, Hotels.ng)



## Healthcare

Offer businesses and individuals to spread costs of insurance premiums over regular installments (e.g. Reliance HMO)



## Housing

Provide financing for annual fees for e.g. school, memberships or commercial services (e.g. Fibre)



## Education

Create environment that generates more interest in STEM, thus increasing talent pool of computer scientists, developers etc.

1. Total revenue pool, integrated network economy



# Content

---

1

The Nigeria FinTech Landscape

2

FinTech impact assessment

3

Recommendations

# There are 5 key imperatives for stakeholders in order to capture the potential opportunity in the Nigerian FinTech ecosystem

01 Innovative Regulatory Environment	02 Digital ID	03 Credit Infrastructure	04 Digital Infrastructure	05 Talent Pipeline
<p>Foster regulations that support innovation</p> <ul style="list-style-type: none"> <li>Establish <b>regulatory sandbox</b> that allows FinTech test ideas in a controlled environment</li> <li>Set up <b>helpdesk</b> to help FinTechs navigate regulations</li> <li>Set up <b>innovation office</b>/team to update regulations based on sandbox outcomes</li> <li><b>Targeted efforts</b> towards solving industry wide issues (e.g. "99 paint points Hackathon")</li> <li>Provide <b>access to standardized APIs</b></li> </ul>	<p>Create pull for digital identity e.g. BVN, NIN, Voters ID etc.</p> <ul style="list-style-type: none"> <li>Encourage digital ID registration as a <b>prerequisite for receiving donor benefit</b> (e.g. cash transfers, health, food programs etc.)</li> <li>Expand access to <b>infrastructure required for enrollment</b></li> <li><b>Accelerate the harmonization of various digital ID systems</b> (NIN, BVN, Voters ID etc.) into centralized system</li> </ul>	<p>Develop central credit infrastructure</p> <ul style="list-style-type: none"> <li>Enforce reporting compliance to Credit Bureau for all Lenders</li> <li>Task <b>central body</b> to <b>provide data</b> for alternative credit scoring (e.g. payment transaction data) to stimulate MSME lending</li> </ul>	<p>Accelerate the deployment of digital infrastructure</p> <ul style="list-style-type: none"> <li><b>Cost effective digital access</b> to all customers (e.g. explore the modalities of inclusive pricing for USSD)</li> <li>Drive down cost of smart feature phones by developing partnerships to <b>assemble low cost phones in free-trade zones</b></li> <li>Drive down cost of data by <b>promoting transparency of regulatory fees around Right of Way (RoW)</b> permits and reduce build-out cost by <b>encouraging infrastructure sharing<sup>2</sup></b></li> </ul>	<p>Grow the talent pipeline</p> <ul style="list-style-type: none"> <li>Scale up developer training programs through <b>standard curriculum and delivery partnerships</b> with Universities or <b>independent training centers</b> situated close to University campuses</li> <li>Develop <b>apprenticeship programs at scale</b> by partnering with various stakeholders to <b>absorb talent for internships</b> from trained pool</li> <li>Build <b>central talent database of trained developers</b> and promote widely to connect demand with qualified supply</li> </ul>
<p><u>Key stakeholders</u></p> <p>CBN, NIBSS ,SEC, NAICOM, PENCOM, NCC etc.</p>	<p><u>Key stakeholders</u></p> <p>Development organizations/ Foundations CBN, Partner agencies e.g. Ministries, SANEF, NIBSS, hospitals, schools,</p>	<p><u>Key stakeholders</u></p> <p>Credit Bureaus, Commercial Banks, Lenders, NIBSS</p>	<p><u>Key stakeholders</u></p> <p>■NCC, MOF, Local and State Governments, Telcos</p>	<p><u>Key stakeholders</u></p> <p>Development organizations/ Foundations, Federal, State and Local Governments, Industry players, Investors</p>

1. Global Standing Instruction will allow lenders to collect default loan repayments from an individual's or company's from any bank across the country

2. Some states have started reviewing the RoW charges in the wake of COVID 19

