THE CHALLENGE OF FINANCIAL INFRASTRUCTURE IN NIGERIA

By

Ahmed 'Tunde Popoola
Managing Director/CEO, CRC Credit Bureau

Nigeria is racing to join the League of Nations with modern financial system reflected in ubiquitous payment solutions and credit infrastructure. The government, through the financial services industry regulators, is encouraging the introduction of Automated Teller Machines (ATM), Point of Sales (PoS) terminals, improved funds transfers through switching and settlement companies, mobile and telephone banking, credit bureaus, etc. Simultaneously, and in response to these stimulants, every financial institution is putting a lot of resources into ensuring that they are not left out of the current race to e – payment solutions and mobile banking services. It is indeed an interesting and a welcome phenomenal.

Before the 2003/05 banking consolidation exercise, there were few opportunities and isolated cases of few banks pushing what was then termed a 'cashless economy'. I remember, with amusement, the era of 'tally number banking' when you have to practically spend the whole day in the banking hall for cheque encashment. Cheque clearing would take twenty one days for upcountry instruments and about six days for local cheques to receive value.

Suddenly, the 'third generation banks' came, heralding another phase in financial services delivery in Nigeria. The advent of the third generation banks in the late 1980s and early 1990s, following the liberalisation of the issuance of banking license, which in itself was a response to the global trend of financial liberalisation, has led to a significant leap in product innovation and development as well as in customer service. Relationship management and customer service took on another revolutionary dimension backed by the most recent available information technology tools and platforms. Saturday banking was introduced and banking hours was extended in normal days to about 6pm. We even had drive – through banking service. Different banking applications were brought in to provide what was then known as online, real time banking. Few ATMs came into circulation. Some introduced telephone banking which enabled their customers to obtain bank balances through their telephone lines. Internet banking followed with few valued customers granted access to track movement in their bank accounts on their computers and send transactions to their relationship managers or officers. Shared services companies that would enable e – payment solutions and cash management were established. Thus we have the ATMC for ATMs, Pioneer Sorting Company for cash management, ValuCard for Point of Sales, Interswitch for switching solutions and the Nigerian Interbank Settlement System Limited (NIBSS) for settlements and funds transfers.

Today, we have almost succeeded in decongesting the banking halls and we have made cash transactions possible where there are no bank branches in brick and mortar. Bank customers now receive value for cheques in clearing in three days. Settlements of transactions above Ten Million Naira are now done through the National Electronic Funds Transfer (NEFT) with value delivered the same day in most cases. There are ATM machines in major cities and towns in Nigeria and access to cash is twenty four hours every day. The Point of Sales (PoS) terminals are being aggressively deployed with over 30,000 of them now in circulation. The good thing about it is that the PoS connected to NIBSS infrastructure accept all major cards. With some cards, Visa or Master cards, cardholders now withdraw money in foreign currencies out of the country. You can sit down in your office or at home and move funds from one account to another. Some companies have been licensed to provide telephone mobile banking services to further boost our payment solutions and deepen access to financial services. Thus, our issue is no longer long queue in the banking halls; it is no longer inability to withdraw money unless you get to the banking hall nor is it inability to know the transactions going on in our bank accounts until we receive our bank statement at the end of the month. All these have been overcome with the introduction of ATMs, PoS, Internet banking, account transfer devices, etc.

Financial intermediation is like a coin; there are two sides to it. As the payments system has been supported by all these improvements in infrastructure, the lending side has also witnessed the presence of credit bureaus. There is no economy that can witness serious upsurge in consumer loans and loans to small and micro businesses without strong and reliable credit information sharing platform. Availability of credit bureaus, collateral registries and sound and efficient judicial system are prerequisites for access to credit. The credit bureaus are so central to the effectiveness of our lending process because without them, lenders will continue to lend in the dark.

In 2009, the Central Bank licensed three credit bureaus who have all been involved in enlisting the lending institutions unto their platforms to promote information sharing, reduce information asymmetry and assist lenders in determining the credit worthiness of loan applicants. As we move on, the credit registries should assist in enhancing character lending, boost retail banking and enable good customers to have access to credit without or with minimal tangible collateral or security. It should also be able to assist us to crowd out serial defaulters and fraudsters to a minimal level. In the long run, loan applications processing will be automated. In recognition of the availability of these financial infrastructures, a lot of the banks are now developing consumer loans and retail banking products such as credit cards, auto loans, mortgage facilities, etc.

These achievements in so short a time have now made us to forget where we are coming from. It is so easy to forget one’s challenges once you find yourself in a position of comfort. We now dwell on the challenges and a lot of people talk more about the challenges than about the succour we are deriving from e – payment solutions.

There is no doubt that, today; the banking industry is going through a tough time in epileptic customer service especially in virtually all e – payment solution platforms. The performances of the financial infrastructures have been seriously hampered as most of them are unable to perform efficiently. Their use has been trailed with a lot of complaints, irritation and frustration. ATMs are routinely out of order and out of cash; customers have also complained of their ATM cards being destroyed by the machines and in some cases, customers are debited for cash not dispensed and reconciliation take a lot of time to get the transactions reversed. Fraudsters have had a field day with banks and their customers being the losers. For credit bureaus, absence of a unique identifier and robust legislation and the challenge of power supply are major issues for efficient running of their infrastructure. In addition, high cost of internet access and limited access to internet services including limited awareness of the existence and services of credit bureaus even by lenders have hampered their effectiveness and impact.

It is important to see a general trend in how inadequate and dilapidated socio – economic infrastructures continue to be an issue for us in Nigeria. Just as our payment solution platforms and lending infrastructure face series of complaints from users, so also do we see that our telecommunication companies have not been able to deliver optimum value for money to the users of mobile telephones. The interesting thing is that most other countries do not experience this. It is therefore easy to conclude that the basic socio – economic infrastructures are what are lacking and these are the responsibility of government. Private sector organisations have strived to get Nigerians to enjoy the services that are enjoyed in other parts of the world. However, the provision of such services is always anchored on the availability of some other basic infrastructure. Access to stable source of power and the internet are major requirements for efficient and affordable payment solutions.

Credit bureau services should be available all the time in the year to guarantee access and enhance automation of processing credit applications. Lenders process over two million applications daily in South Africa with the aid of credit bureau infrastructure and about one hundred and fifty thousand reports are delivered daily by credit bureaus in Dominican Republic with a population of about ten million people. These are possible in those two countries because of uninterrupted power supply and cheap and generous access to internet services. Both are lacking in Nigeria. The bureaus also require a unique means of identification for citizens which we have not been able to achieve in our country. Telecommunication companies erect mast everywhere supported by electricity generating plants for uninterrupted power supply and special security guards to protect those assets. Commercial banks have had to incur a lot of costs trying to manoeuvre to ensure all the payments solutions work; and they do this individually. Some banks have resorted to the use of biometric equipment to capture customer information to reduce the incidence of fraud and losses in the absence of a reliable national means of identification.

It is my submission that until the government comes to the rescue of the private sector and entrepreneurs by providing the basic infrastructure on which the companies can latch on, we will continue to encounter less than efficient service delivery from our banks, telecommunication companies, financial services payment solutions and credit infrastructure.

This brings us back to the basic; provision of uninterrupted power supply remains the most important missing link on our way to economic transformation. Closely following this is our inability to have a credible means of identification. The third issue is the need to make internet facility available and affordable in all parts of the country. If we are able to fix these three issues of electricity, unique identification and access to the internet, the service providers on telecommunications, banking and financial services would respond in two quick ways. There would be improved service delivery and in more areas and more products than what we have now and the costs of enjoying the services would drop dramatically.

While condemning the banks, the e – payment and credit solution providers and the telecommunication companies for poor services, we should appreciate the challenge of the operating environment, knowing full well, that no profit making institution, in a competitive market, can deliver poor services at exorbitant prices in a sustainable manner. Finally, it is also important to note that, moving forward, things can only get better. Nigeria has joined the rest of the world in adopting technology driven solutions in the delivery of financial services. But like most new things, this is a phase and it shall come to pass.

However, the financial services institutions need to do a lot more in addressing the challenges they face which have culminated in delivering services not commensurate with the costs to Nigerians. I am one of those who believe that the pursuit of shared infrastructure model, with all honesty and total support by both regulators and operators, can go a long way in overcoming some of the challenges and lead to improvements in service delivery. Such model would benefit from economies of scale and it is also capable of bringing down the horrendous cost of doing business. Unfortunately, the consumers see those charges as swindling and unmerited revenues to the financial institutions. To the institutions, the charges do not cover the cost of providing such services.

To further safeguard the interest of the consumers, government would have to do much more. Apart from giving priority to the over flogged issue of physical and digital infrastructures, it is imperative to enact appropriate legislations and promote efficient judicial system with a view to promoting a robust consumer protection and safeguard financial institutions against unscrupulous customers. Such an arrangement should be with a view to sanitising the system and put in check, the excessive and scrupulous charges by a few. Customers should have places to run to for succour when they believe they have been unfairly treated or charged; on the other hand, providers of financial services should also be able to get justice, swiftly, when they have been defrauded.