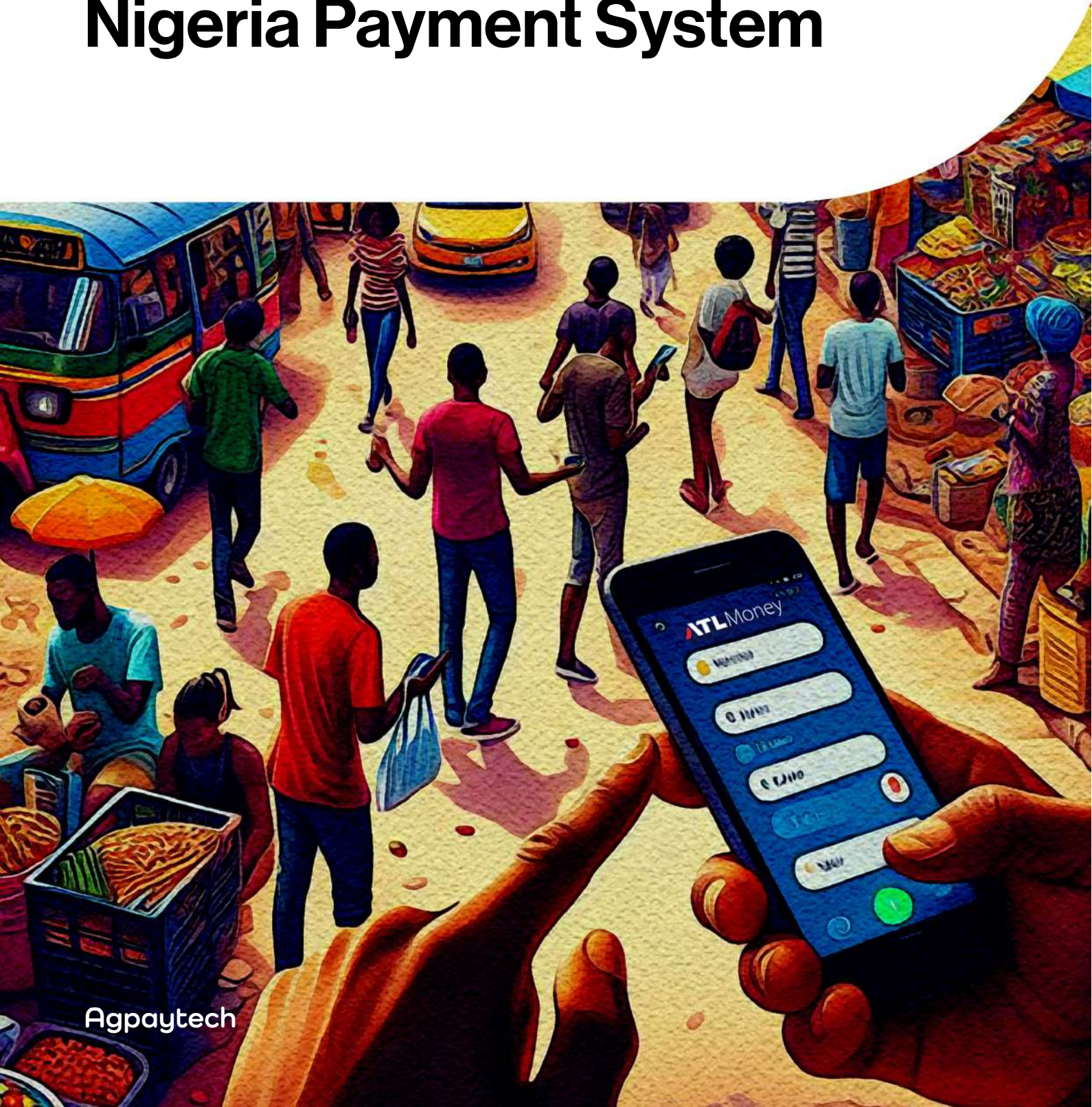


Agpaytech's Research  
28th June, 2024

# Cashless Economy

## How Fintech is Reshaping Nigeria Payment System



# Executive Summary

**The traditional banking sector in Nigeria has faced numerous challenges, including limited access to financial services, high transaction costs, and low financial inclusion rates, particularly in rural areas.**

The transition from cash to digital in Nigeria's economy signifies a paradigm shift towards a more inclusive, efficient, and digitally-driven financial ecosystem.

The emergence of FinTech solutions has disrupted these barriers, offering innovative digital platforms and services that cater to the diverse needs of consumers and businesses alike. One of the key drivers of this transformation is the adoption of mobile banking and payment solutions.

Mobile penetration in Nigeria is exceptionally high, providing a fertile ground for FinTech companies to introduce convenient and accessible banking services through mobile apps and USSD codes.

These digital platforms enable users to perform various financial transactions, including payments, transfers, and savings, with just a few taps on their smartphones.

Moreover, FinTech banking has facilitated financial inclusion by reaching previously underserved populations, such as the unbanked and underbanked segments.

Through partnerships with telecom operators, banks, and other financial institutions, FinTech companies have extended their reach to remote areas, bringing essential financial services to millions of Nigerians who were previously excluded from the formal banking system.



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In conclusion, this research stresses the transformative potential of FinTech banking in Nigeria, highlighting its role in driving economic growth, promoting financial inclusion, and fostering innovation.

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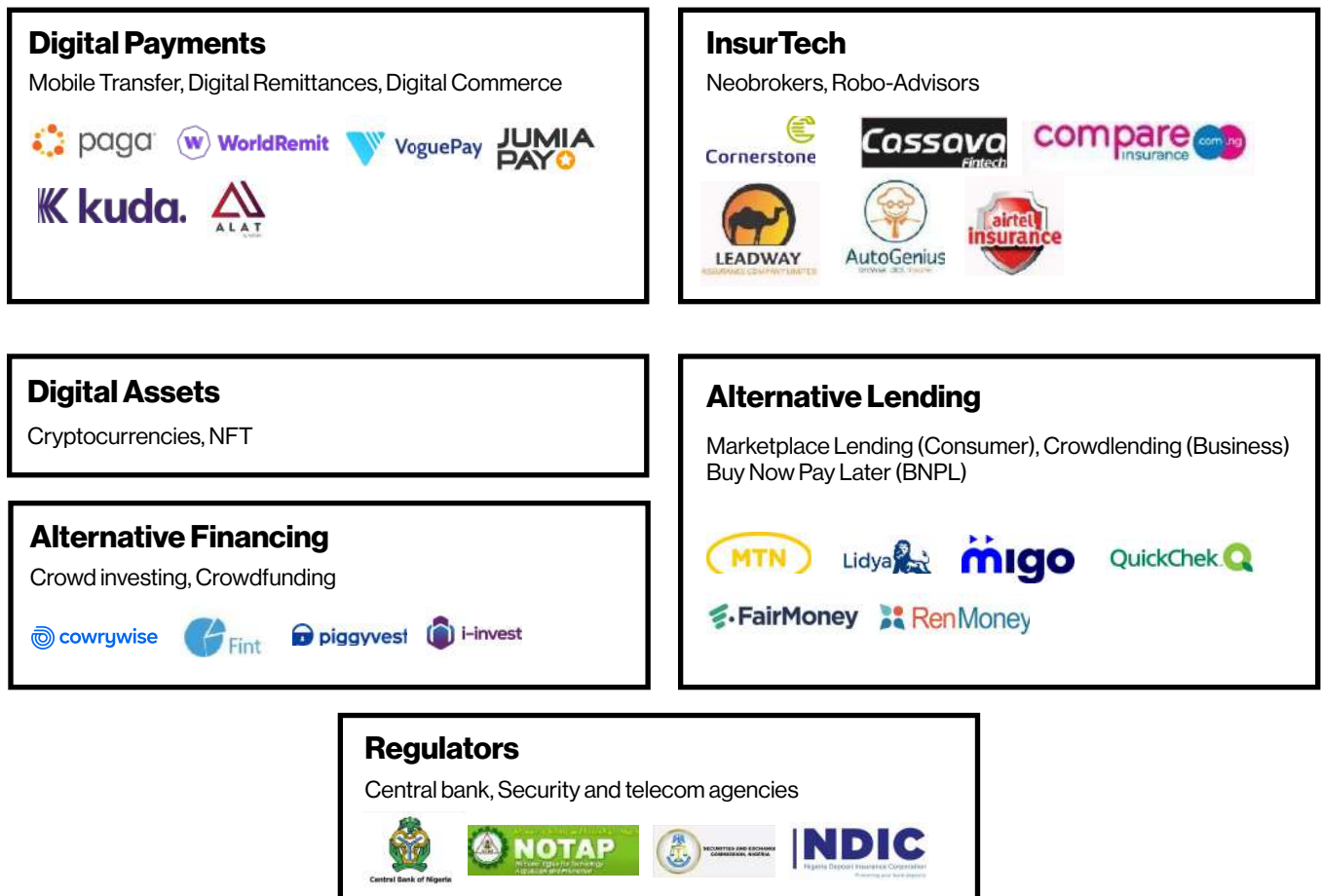
# Financial Technology Ecosystem in Nigeria

## Financial Technology (FinTech) in Nigeria has grown remarkably especially after the COVID19.

The implementation of the Payment System Vision 2020, open banking regulation, blockchain foundations and the notable enhancement in the use of cards, ATM, Point-of-Sales (POS) terminals, electronic fund transfer and mobile payments and other central bank reforms have led to the emergence of several FinTech firms.

Without doubts, the Nigeria's vibrant fintech industry has the capacity to address every digital-related challenges by utilizing mobile money, digital payment platforms, and wallets to connect with underserved populations in rural and remote regions.

Figure 1: Fintech Ecosystem



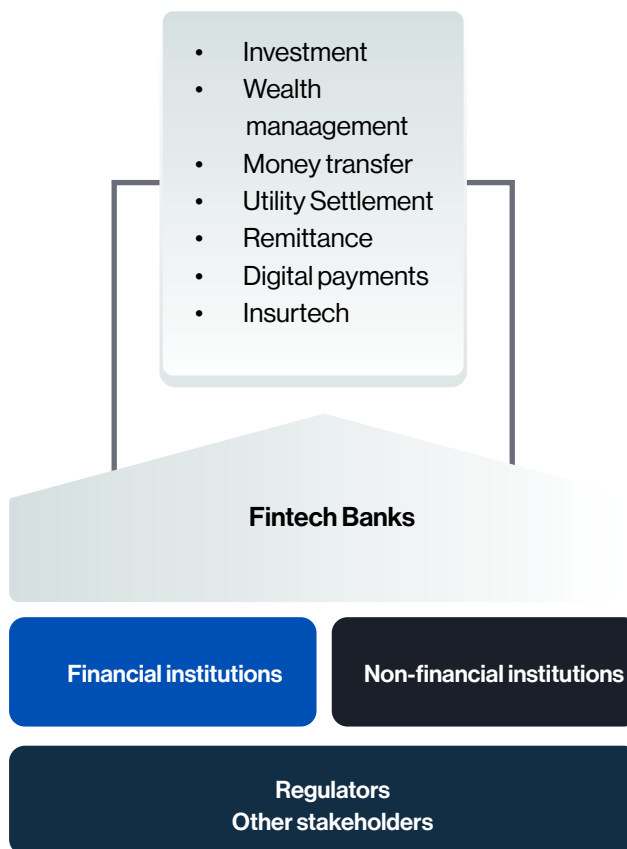
Source: Agpaytech

For instance, in 2023, Statista reported there were 217 fintech startups in Nigeria. The number of startups in this sector experienced an increase.

The huge investment and partnerships boost from both international and local players are making FinTech offer instant, convenient and accessible banking services.

Moreover, not only does FinTech focus on banking services but has widened to cover non-financial services and integrate robust payment systems in transport, education, trade, SMEs, utility payments and others.

Figure 2: FinTech building resilient ecosystem



Source: Agpaytech

In the case of Nigeria, is Africa's undisputed real-time payments and digital payments leader, recording 3.7 billion real-time transactions in 2021 and ranking 6th in the league table of the world's most developed real-time payments markets (ACI, 2022).

Most FinTech startups are concentrated in Lagos and it is the only African city in the top 100 Global Startup Ecosystem Report (StartupBlink, 2023).

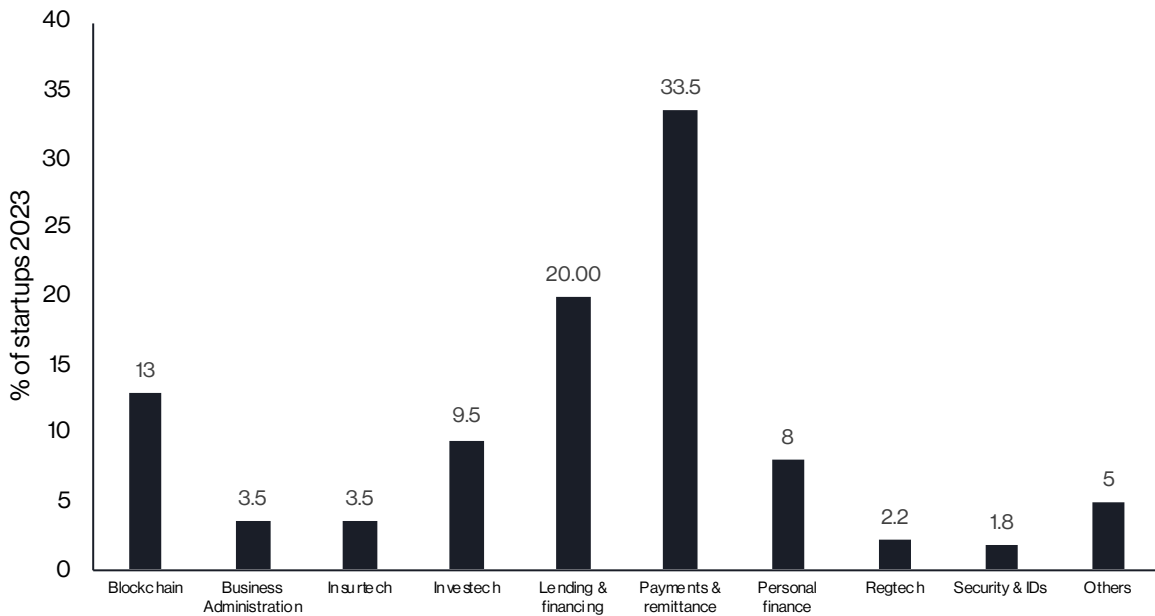
FinTech services in Nigeria are largely focused on payments and remittances with the majority of the firms in mobile transfer, lending, and cross-border payments representing a share of over 30%.

The history of FinTech in Nigeria dates back to when the first Nigerian bank started incorporating technology into their banking system for smooth operations. Some of the early FinTech companies in Nigeria are Interswitch, Etranzact, Precise Financial Systems (PFS) and SystemSpecs.



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Figure 3: FinTech startups in Nigeria by Sector 2023



Source: Agpaytech







# Fintech Services, Applications & Technologies

The word “FinTech” is simply “financial” and “technology” which describes the use of technology to deliver financial services and products to consumers.

This could be in the areas of banking, insurance, investing, or anything that relates to finance. Fintech Banks refer to a bank that primarily operates using financial technology solutions.

These banks leverage technology to offer innovative financial services such as online banking, mobile banking apps, digital payments, peer-to-peer lending, robo-advisors, blockchain-based transactions, and more.

FinTech solutions have enormous potential to transform the provision of financial services in Nigeria through the development of innovative instruments, channels and systems.

The sector has attracted substantial investment, both local and international, resulting in a vibrant ecosystem of FinTech companies.

To the business world, FinTech activities in Nigeria are providing pragmatic ideas through FinTech services, technology and applications to improve the financial ecosystem.

The FinTech offerings go beyond payment services to full business integration in the financial and economic market.

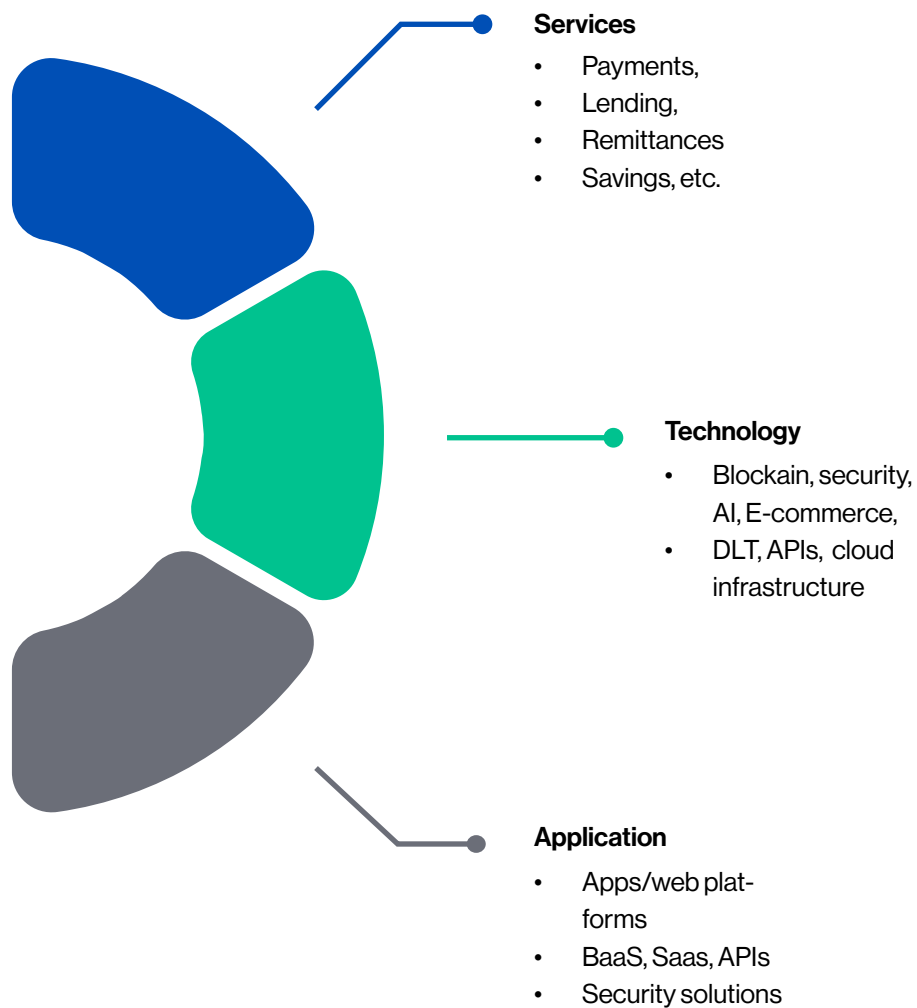


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While some FinTech firms provide direct consumer financial services others engage in backend technology supports such as software-as-a-service, cloud infrastructure, regulatory embedded (smart contracts), API, data security, and many others.

Figure 4: FinTech banking by services, applications and technology



Source: Agpaytech







# FinTech Digital Solutions and Services

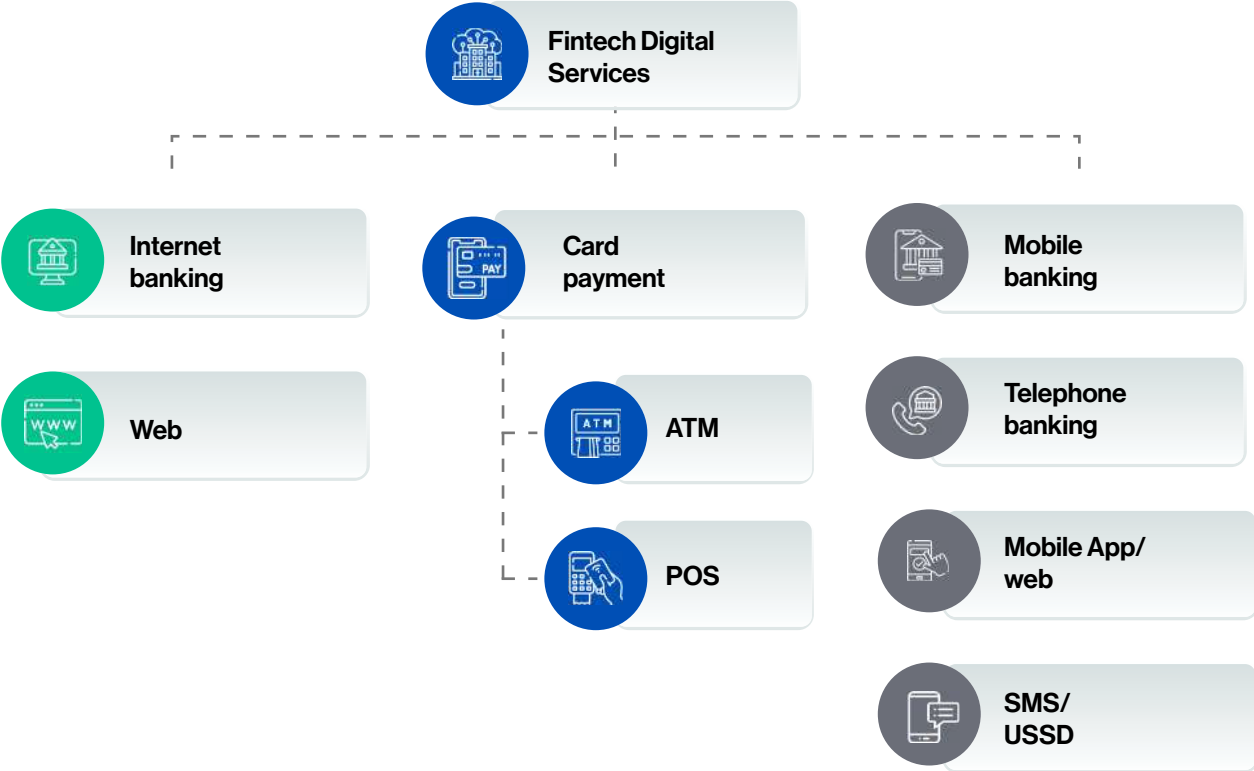
In Nigeria, FinTech utilizes various digital channels to offer its services to customers. These digital channels enable customers to access and manage their accounts, make transactions, and interact with the FinTech.

Also, the availability and specific digital channels offered by FinTechs in Nigeria may vary based on the individual FinTech strategy, technological capabilities, and customer preferences.

In most cases, FinTech partners with conventional banks and telecom networks to leverage the use of financial technology in providing convenient financial services to customers.

One key example is the numerous electronic banking models such as ATMs, POS, Internet Banking, and many others. With banking activities, FinTech provides numerous banking services for the consumer to choose from.

Figure 5: FinTech banking channels



Source: Agpaytech





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# Market Trends of Fintech Activities

And one of the contributing forces to reaching this height is FinTech products and services. FinTechs provide banking services and financial products through mobile apps and websites, offering customers a convenient and user-friendly banking experience.

In Nigeria, FinTech has gained significant popularity and has been instrumental in driving financial inclusion by reaching unbanked and underbanked populations.

In large, the growth driver of FinTech in Nigeria can be credited to the convergence of increased internet penetration, and the mass number of Nigeria's unbanked and underbanked population coupled with the growing number of customers demanding digital financial services.

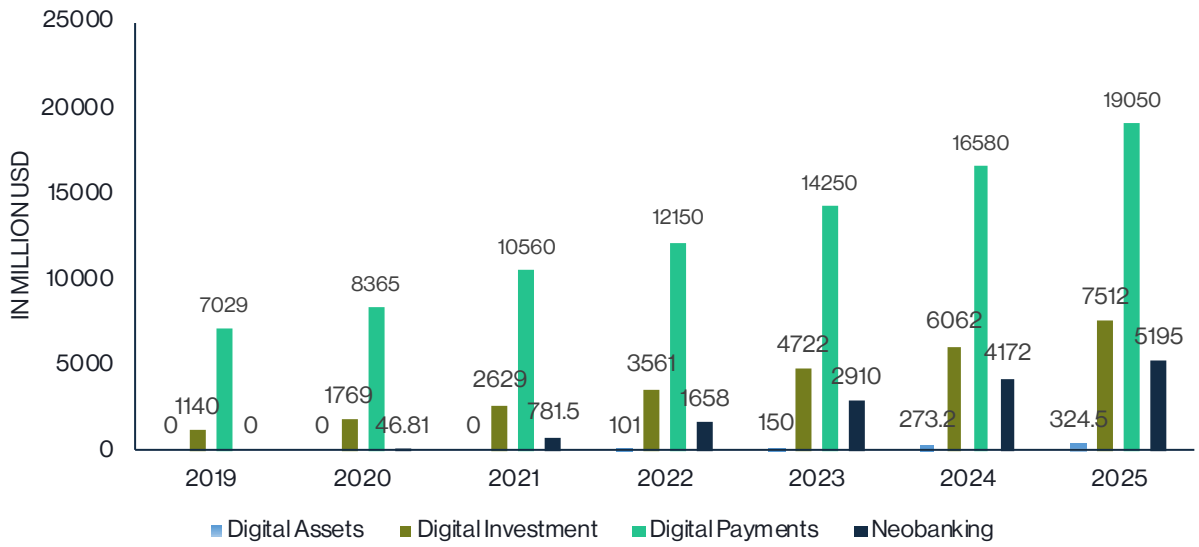
Meanwhile in Nigeria today, the average transaction value per user in the FinTech segment amounts to US\$2.00k. While the number of users is expected to amount to 2.11m users by 2027, user penetration will be 0.4% this year and is expected to hit 0.9% by 2027, according to statistics shared by Statista.



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Figure 6: Transaction value by segment



Source: Statista.com

Figure 7: Average transaction value by the user



Source: Statista.com





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# FinTech Banking Use Cases in Nigeria

**The digital banking landscape in Nigeria is dynamic, and new players may emerge while existing ones may evolve their offerings.**

Most FinTechs have similar services and products that they offer to their users. One of the significant roles of FinTechs in Nigeria is promoting financial inclusion.

By leveraging technology and innovative business models, FinTechs reach underserved populations and provide them with affordable and accessible banking services.

They help bridge the gap between the unbanked or underbanked individuals and the formal banking sector. These key services and roles of FinTech contribute to a more convenient, accessible, and user-friendly banking experience for individuals in Nigeria.

However, the specific services and features offered may vary from one FinTech to another.



**These key services and roles of FinTech contribute to a more convenient, accessible, and user-friendly banking experience for individuals in Nigeria.**

Figure 8: FinTech banking Use Cases in Nigeria



**Digital Account Opening:**

FinTech like Neobanks allow customers to open accounts entirely online through their mobile apps or websites. This eliminates the need for physical branch visits and paperwork, making the account opening process quick, convenient, and accessible to a broader population

**Mobile Banking:**

FinTech in Nigeria prioritize mobile banking services, providing customers with intuitive and user-friendly mobile apps. Through these apps, customers can perform various banking activities such as checking balances, making transfers, paying bills, managing transactions, and accessing financial insights



**Payments and Transfers:**

FinTechs enable customers to make payments and transfers easily and securely. They typically offer features like fund transfers between accounts, sending money to other banks or users, and making bill payments for utilities, subscriptions, and other services. These transactions can be initiated and completed within the mobile app.

**Savings and Current Accounts:**

FinTech provide savings account options that allow customers to deposit and save their money. Neobanks offer current accounts that allow customers to manage their day-to-day finances. These accounts typically come with features like a debit card, account statements, transaction history, and the ability to receive and send payments.



**Loans and Credit:**

FinTechs enable customers to make payments and transfers easily and securely. They typically offer features like fund transfers between accounts, sending money to other banks or users, and making bill payments for utilities, subscriptions, and other services. These transactions can be initiated and completed within the mobile app.

**Value-Added Services:**

FinTech often collaborate with other financial service providers or fintech companies to offer value-added services. This can include features like investment opportunities, insurance products, virtual card, etc.



Source: Agpaytech



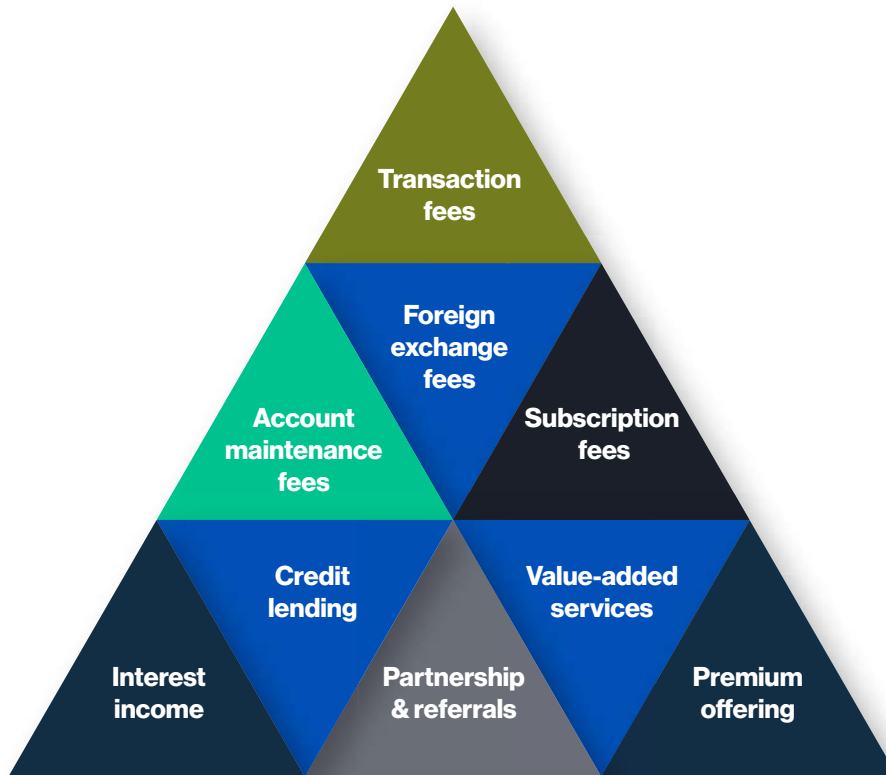








Figure 9: How most FinTech firms make money



Source: Agpaytech

While FinTech in Nigeria has been successful in promoting financial inclusion and offering innovative banking solutions, it also faces several challenges in its operations.

FinTech in Nigeria faces challenges such as customer trust and awareness, as some individuals may still prefer traditional banking methods.

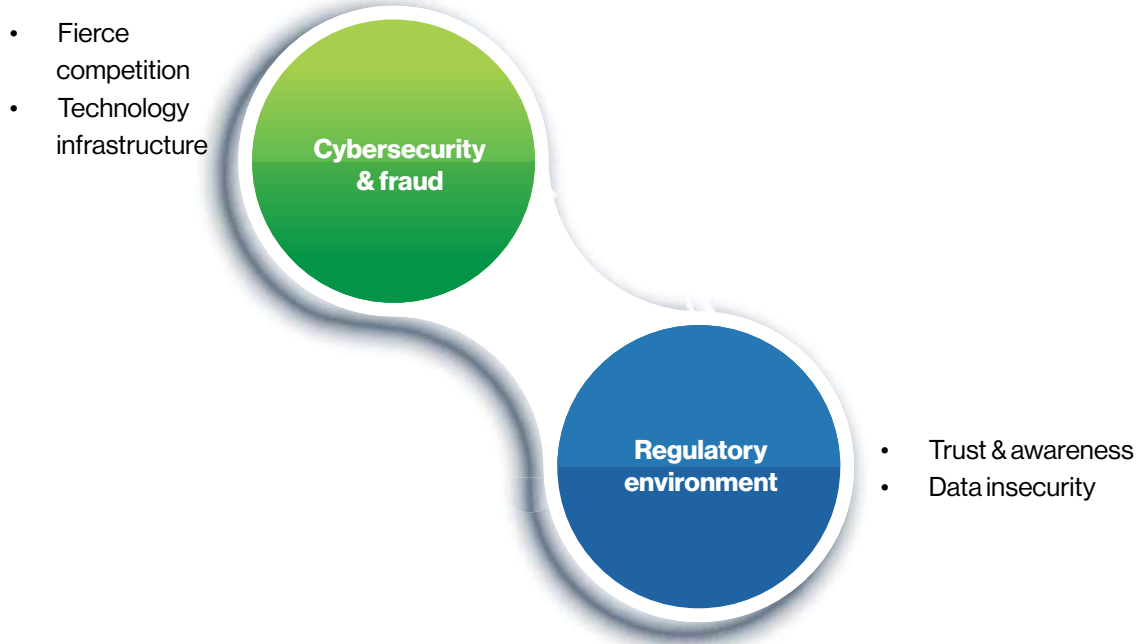
Cybersecurity and data privacy are also critical concerns, given the online nature of FinTechs. However, the Central Bank of Nigeria has issued several guidelines and regulatory measures and advancements in technology continue to address these challenges.



**FinTech in Nigeria faces challenges such as customer trust and awareness, as some individuals may still prefer traditional banking methods.**

Consider factors such as the bank's reputation, security measures, customer reviews, product offerings, and any associated fees or charges.

Figure 10: Challenges of FinTech operations



Source: Agpaytech



# Conclusion

**Nigeria has been experiencing significant growth in its Fintech sector in recent years and Neobanks are becoming the favorite digital payment channel due to their commitment to more transparency and customer satisfaction.**

The country's large population, growing mobile phone penetration, and limited access to traditional banking services have created a favorable environment for Fintech innovation.

Furthermore, the integration of innovative technologies such as blockchain and artificial intelligence (AI) has enhanced the security, efficiency, and transparency of financial transactions in Nigeria.

Blockchain technology, for instance, ensures tamper-proof record-keeping and facilitates seamless cross-border transactions, thereby reducing transaction costs and enhancing financial accessibility.

Overall, However, challenges such as regulatory compliance, cybersecurity risks, and infrastructure limitations persist and require proactive measures from policymakers, financial regulators, and industry stakeholders to ensure the sustainable growth of FinTech banking in Nigeria.



**Furthermore, the integration of innovative technologies such as blockchain and artificial intelligence (AI) has enhanced the security, efficiency, and transparency of financial transactions in Nigeria.**

By embracing this digital revolution, Nigeria is poised to unlock new opportunities and propel its economy towards greater prosperity in the digital age.

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# About Agpaytech Ltd.

Agpaytech Ltd. is a company pioneering in the Fintech space with a focused approach to building robust technologies for e-commerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service (RaaS), Banking-as-a-Service (BaaS), Foreign Exchange, Cross Border Payments, and digital currency technology.

We also provide practical white paper research support to central banks, government and private institutions, economic organizations, and NGOs in Africa. Our services expand from research projects, state-of-industry reports, project assessment, data collection, and consulting services in the fintech space.

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