STUDY SUMMARY

Understanding Consumer Protection Risks Faced by Nigerian Digital Finance Users

The opening of Nigeria's mobile money system to non-banks and new mobile banking products from commercial banks presents the potential for digital finance to take off in the country. To maximize the benefits of digital inclusion, expansion of use should occur alongside sufficient consumer protection policies and responsible product design. Yet existing surveys on financial access have provided only limited insights on consumer protection issues and have not probed on the drivers of issues such as fraud and loss of trust in digital products. This study provides initial evidence on the experiences and consumer protection risks in mobile and agent-based financial services to inform market development. To do so, researchers conducted a survey of digital finance users in Lagos, Kaduna, and Enugu. The survey covered active and dormant users of electronic payments products, mobile banking products, agent banking, and digital credit on key consumer protection topics including pricing transparency, fraud, experiences at agent locations, complaints handling, and redress.

Policy Issue

Poor user experience in digital finance can reduce consumer welfare, and impact uptake and usage of these services. At this early stage in the development of Nigeria's digital finance ecosystem, identifying and mitigating consumer risks will ensure the right protections are in place before digital financial services scale up. Regulators, including the Central Bank of Nigeria (CBN), have expressed interest in developing new standards for consumer protection in digital finance to keep pace with these innovations.

This study produces the first comprehensive consumer protection data on digital finance in Nigeria that policymakers can use to inform further research on consumer protection solutions, policy reforms, and outreach to the industry.

Evaluation Context

Nigeria is the largest economy in Africa, but its digital financial landscape is still relatively early in its development. EFinA's 2020 Access to Finance survey found 45 percent of the population is banked (up from 38 percent in 2016). Agency banking is expanding dramatically – 19 percent of the population used banking agents in 2020 compared to just 3 percent in 2016. Despite the growth of

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digital finance and agency banking in Nigeria, little has been done to understand the types of consumer protection risks consumers face when engaging in these new services. Limited evidence suggests issues such as agent overcharging, limited pricing transparency, and scams targeting digital accounts are all common. For example, nearly 2 in 5 agents charge customers more than the maximum fee allowed by the Central Bank of Nigeria.

Details of the Intervention

This is not a randomized evaluation

This study involves an in-person survey of customers leaving agent banking locations in three urban centers in Nigeria: Enugu, Kaduna, and Lagos. This survey aimed to answer key questions on consumer protection in digital finance:

- Which consumers suffer from fraud, and what traits or actions expose them to these risks?
- Which consumers utilize formal complaints channels when they suffer an issue, and what keeps them from obtaining an effective resolution?
- What do consumers understand about the terms of the digital financial services they use?

To answer these questions, researchers conducted a survey between August 2020 – February 2021 of 752 digital finance consumers, randomly selected in-person. Researchers filtered respondents based on their recent use of digital finance products such as mobile money, mobile banking, and digital loans. The survey lasted approximately 30 minutes and covered a range of consumer protection topics including pricing and transparency, competition and choice, fraud, and agent misconduct. Furthermore, researchers disaggregated data by demographic characteristics such as gender and age.

Results and Policy Lessons

Given the location of the surveys and screening to include only digital finance users, the respondents had higher education and income levels than the general Nigerian population. Digital financial services in Nigeria are predominantly bank-based, in contrast to mobile-money led African markets like Kenya and Uganda. Mobile loans have limited uptake in Nigeria, and its users are significantly higher educated and have higher income on average than the Nigerian population. Mobile money was primarily used for person-to-person transfers. Brand reputation and familiarity were the primary factors in consumer choice of mobile banking providers. Agent selection is primarily based on proximity to the consumer.

Extra or unexpected charges and phishing or scam attempts were the most frequent challenges faced by consumers of digital financial services. Respondents were most likely to experience challenges with mobile money and mobile banking. Education and age appear to be the most significant demographic factors in whether consumers reported challenges. Most respondents (65 percent) took no action in response to their biggest concerns. Consumers that did address challenges tended to do so in-person. Those who could not resolve issues were more likely to change or reduce use of digital financial services.

Most respondents report increased financial difficulties, including loan repayment difficulties, as a result of the pandemic.

Several policy lessons emerge from these findings:

- Improved digital interfaces and standards on the disclosure of product terms and charges could help address hidden fees, as could greater consumer awareness.
- Particular attention should be paid to extra fees applied by agents. Addressing these charges could involve improved monitoring and enforcement, revised incentive and commission structures, and greater consumer awareness of official fees.
- Researchers should assess the causes of the discrepancies in the use of complaints mechanisms.
- Industry and regulators could assess targeted interventions to the populations most susceptible to scams and fraud
- The lack of importance of price in consumer choice of products and services raises concerns for consumer switching and price-based competition.