Nigerian Remittance Market
NIGERIAN REMITTANCE MARKET

Introduction

According to the International Monetary Fund (IMF), remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies.

Remittances include cash and non-cash items that flow through formal channels, such as banks and international money transfer operators (IMTOs), or through informal channels, such as money or goods carried across borders.

Nigeria has the largest population in Africa, with over 196 million people in 2018, and accounts for over one third of migrant remittance flows to Sub-Saharan Africa. According to the United Nations, there were 1.24 million migrants from Nigeria in the diaspora in 2017, and this figure is likely to be higher in 2018 and 2019 with the recent trend in migration from the country.

With roughly USD24 billion received in 2019, Nigeria is also the largest recipient of remittances in Sub-Saharan Africa.

PricewaterhouseCoopers (PwC) predicts that Nigeria’s annual remittances will reach roughly USD35 billion by 2023. Informal flows are estimated to be around 50% of total remittances into the country, which represents a clear market opportunity.

Source: World Bank
Since Nigeria is the largest economy in Africa with an estimated GDP of USD470 billion in 2018, it is not surprising that investment funding for Nigerian start-ups and fintechs was more than USD117 million in that year, making the country a powerful remittance market.

**Regulatory Changes**

On 30 November 2020, the Central Bank of Nigeria (CBN) changed the rules on remittances to Nigeria, requiring that all payments be received only in US dollars (USD), either paid out in cash from bank branches or paid into USD-denominated bank accounts (known as ‘domiciliary accounts’).

The CBN has issued a circular setting out the modalities for payout of diaspora remittances:

- Only licensed IMTOs are permitted to carry on the business of facilitating diaspora remittances into Nigeria.
- All diaspora remittances must be received by beneficiaries in foreign currency only (cash and/or transfers to domiciliary accounts of recipients).
- IMTOs are not permitted, under any circumstances, to disburse diaspora remittances in Naira (either in cash or by electronic transfers), be it through Naira remittance settlement accounts (which had been earlier directed to be closed), third party accounts or via any other payment platforms within and/or around the Nigerian financial system.

During the month of December 2020 we noticed that some IMTOs had stopped offering Naira (NGN) termination, either switching off their services completely or, where they were able, offering USD (mostly for cash payout via bank branches). There was confusion as to what was permitted and what was not.
IAMTN contacted the Central Bank of Nigeria and on 14th January took part in a video call in order to raise awareness of the challenges and concerns of our members.

The Central Bank of Nigeria wishes to increase the inflow and deposits of USD, and the wide availability of USD would reduce the spread between the official and unofficial USD/NGN exchange rates.

This intended scenario for CBN could even become reality if all incoming remittances to Nigeria were taking place through IMTO licensees. Nigeria already has a large and significant remittance market, with a significant informal channel. The country is also struggling with a shortage of hard currency at the moment something that remittances coming from the diaspora can counter.

### Cash Remittances

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Remittances through official sources - S'million</th>
</tr>
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<tbody>
<tr>
<td>2015</td>
<td>826.27</td>
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<tr>
<td>2016</td>
<td>420.81</td>
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<tr>
<td>2017</td>
<td>1,103.55</td>
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<tr>
<td>2018</td>
<td>1,598.93</td>
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<tr>
<td>2019</td>
<td>3,393.73</td>
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<tr>
<td>2020 (Q3 YTD)</td>
<td>1,089.29</td>
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</tbody>
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**Source:** CBN Foreign Flows Data/Nairametrics.
Impacts on the remittance diaspora

During the month of January 2021, IAMTN surveyed IMTOs operating within the Nigerian corridor.

In order to understand the challenges faced by the IMTOs, we asked if they were able to comply with the new regulation: not all of the respondents acknowledged that they were even aware of the regulation.

**TYPE OF ORGANISATION**

- 60% IMTO
- 33% Payment Aggregator
- 6.7% Operating through IMTO (Nigeria)

**ARE YOU LICENSED BY CBN?**

- 73.3% NO
- 26.7% YES

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**HOW DID YOU LEARN ABOUT THE NEW REGULATION?**

- 33% Direct communication to you from CBN
- 46% Local Partner
- 20% Industry Association

Source: IAMTN survey
When asked about the challenges faced in order to comply with the new regulation, they stated not only confusion and lack of guidance but also not enough notice to implement the changes.

Low availability of USD (especially low denomination) in the market was also mentioned. It was reported that no official switching facilities exist for interbank USD transactions in Nigeria, which makes the use of a USD deposit difficult for consumers. In order to comply with the CBN regulatory changes, an IMTO needs direct relationships with all the banks that hold deposit bank accounts, thereby increasing the cost per transaction and creating a significant entry barrier for new IMTO licensees.

Nigerian customers also face significant challenges in receiving their money owing to both shortages in USD and long queues in the banks, which are challenging at the best of times but currently also a health risk due to COVID19.

Because of the many lockdowns in place in most remitting countries, many Nigerians could not travel during the month of December. Many who would normally have returned with their money for the Christmas period decided instead to remit the money home. During this time, IMTOs reported receiving a high number of complaints, with customers indicating that the beneficiaries faced many challenges in order to cash out their remittances, and in many cases this was not possible.
Many beneficiaries reported low availability of USD in bank branches, while others experienced problems with the one-time password (OTP) delivered to their phones via SMS (short message service), which is required to receive USD remittances. It has been found that senders frequently get these numbers wrong (exacerbated by multi-SIM [subscriber identity module] usage in Nigeria) and certain mobile networks block these messages. The bank validation number (BVN), required by some banks to collect cash, also presented some challenges since only a few customers were aware of it. As a result of all these difficulties, many customers were unable to receive their money when they most needed it.

The remittance industry and its Nigerian customers are facing numerous challenges at this time. Money transfer operators have seen a significant shortfall in their volumes in December and January, and these seem to have moved to the informal market or to players who are not complying with the CBN directive. Early indications are that some companies have seen volumes drop by 80% or even more. Many operators are reporting increased operational costs that they are not able to absorb and which in the short term will be transferred to their customers, thus increasing the price of sending money to Nigeria.
Suggestions from the private sector

1. Delay the implementation of USD-only services for a period of at least six months, by permitting senders to remit in either USD or NGN, thus allowing time for the operational setup of USD services to be completed.

2. Allow IMTOs to convert USD to NGN with CBN-licensed bureau de change (BDC) operators as well as banks, thereby enabling legitimate IMTOs to compete with, for example, the Hawala system.

3. Permit the remittance industry to work with CBN to improve the process around:
   - Digitisation of remittance reporting (we understand work in this area is ongoing, as per the December 16 circular);
   - Identification of and enforcement against non-regulated/informal market operators.
Updates

On 5th March 2021, CBN announced the introduction of the “CBN Naira 4 Dollar Scheme”, an incentive where recipients of international remittances. Where CBN shall, through commercial banks, pay remittance recipients the incentive of N5 for every USD1 remitted by sender and collected by designated beneficiary (whether they choose to collect the USD as cash across the counter in a bank or transfer the same into their domiciliary account).

The above scheme takes effect from Monday 8th March 2021 and ends on Saturday 8th May 2021.

Next Step

At IAMTN, we continue to follow the latest regulation from CBN and monitor the impact on the Nigerian remittance market. For this reason, we are collecting data from remittance service providers. Please complete the survey. This will take no longer than 3 mins. We can assure you that all your comments will be kept completely confidential and only anonymised data will be featured in the report.

We will also continue to lease with The Central Bank of Nigeria in order to provide industry feedback.