

Inclusion for all

NIGERIAN TELCO USSD CUT-OFF IMPACT SNAPSHOT



Following the Nigerian Communications Commission's (NCC) decision to grant approval for telcos to disconnect banks from using USSD, **how might this impact financial inclusion of the last-mile?**

FEES
₦120 billion
 (USD 261.36 million)

APRIL 2023

In May 2023, the NCC received approval for telcos to cut off USSD services from banks. This follows years of disputes between banks and telcos over non-payment for USSD services. According to the Association of Licensed Telecommunications Operators of Nigeria (ALTON), banks owed telcos **₦120 billion (USD 261.36m)** in USSD fees as of April 2023.

89%



From the 2020 Enhancing Financial Innovation & Access (EFInA) Access to Finance (A2F) survey, we know that **89% of the population has access to a mobile phone.**

Growing phone ownership in Nigeria represents a key opportunity to expand mobile money services and other offerings to the unbanked.



WHAT IS USSD?

USSD (Unstructured Supplementary Service Data) is a communications protocol that allows users to communicate with a service provider via text messages through a menu-based system. USSD functions on the **most basic phones**, and does not require an internet connection. As such, it's the ideal solution to deliver mobile financial services to low-income customers, who may not have smartphones or internet access.

60%

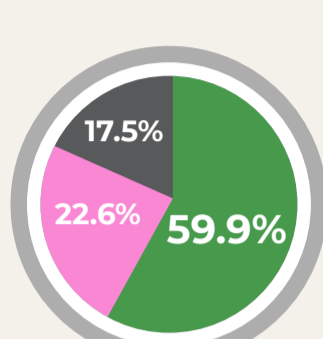


However, of those who have access to a phone, **60% use basic phones.** Cutting these people off from access to financial services rendered via USSD will undermine Nigeria's progress towards financial inclusion.

[* https://techpoint.africa/2023/05/15/techpoint-digest-582/](https://techpoint.africa/2023/05/15/techpoint-digest-582/)



WHAT TYPE OF MOBILE PHONE/S DO YOU USE?



- BASIC PHONE** - Only voice calling & SMS
- SMARTPHONE**
- FEATURE PHONE** - Can send and receive emails, but not able to download apps



The Banked Population

In 2020, **64% of Nigerian adults were financially included**, which covers those using formal banking services, services from other financial institutions, and offerings from non-regulated providers. Of the banked adults, **47% of them owned basic phones which can only facilitate USSD transactions.** Thus indicative of the dependency on the service for early converts into formal financial services, likely to be **low income earners.**

64%



47%



S/N	Type of Phone Used	Banked Respondents
1	A smartphone which is able to access the internet, send and receive emails and is capable of downloading apps. It is likely to have a touchscreen.	47.5%
2	A feature phone which is able to access the internet, send and receive emails, store and play music but is not able to download apps.	20.8%
3	A basic phone which is only capable of voice calling and SMS.	47.0%



Additionally, Nigeria experiences frequent banking app and network downtime. USSD, while slower and less elegant, is a better solution for people across different social classes - no matter what phone you have - **as it does not require an internet connection.**

However, USSD transactions can still be subject to failure due to poor 2G/3G mobile coverage.



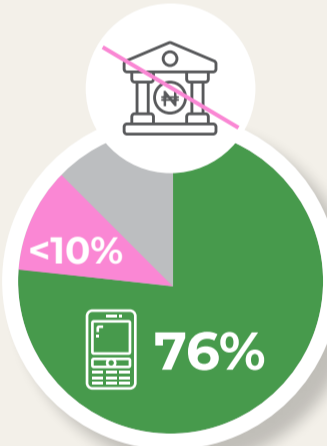
The Unbanked Population

36% of Nigerian adults remained completely financially excluded in 2020, representing 38 million people. **76% of the unbanked respondents in the survey had basic phones** and **less than 10% have smart phones** that would allow them to download mobile apps, as an alternative digital channel to USSD.

36%



38 million



S/N	Type of Phone Used	Unbanked Respondents
1	A smartphone which is able to access the internet, send and receive emails and is capable of downloading apps. It is likely to have a touchscreen.	7.4%
2	A feature phone which is able to access the internet, send and receive emails, store and play music but is not able to download apps.	18.3%
3	A basic phone which is only capable of voice calling and SMS.	76.2%



CONCLUSION

The decision to potentially cut off USSD services will further stifle the usage of DFS amongst the banked populations in these communities who rely mainly on basic/feature phones for their banking transactions. This threatens to widen the inclusion gap, more so in an era where trust has been significantly eroded as an aftermath of the Naira redesign pitfalls.

Given that the type of phones that the vast majority of the banked populations in underserved communities own only support USSD transactions for banking services, the only other options for these individuals will then be to use banking agents or visit physical bank branches to carry out transactions. This is impractical for several reasons including:

- Proximity to bank branches and facilities remain a barrier to the financial inclusion of unbanked people who are likely to be poor and live in rural communities.
- Cost of visiting a branch is not only limited to the transportation cost but includes the opportunity cost of earning a daily means of income because of time spent in the branch.
- Agent banking is not well established in hard to reach locations.

Restricting access to USSD for these populations is likely to limit their ability to access financial services, erode trust in government and financial services, and negatively impact progress towards 2024 NFIS goals.

The decision to potentially cut off USSD services and so restrict access to financial services is symptomatic of a deeper problem - USSD is currently a commercially unviable and unreliable system. In order to transform it into a sustainable and strong solution that works for users, including the most marginalised, concerted, collaborative stakeholder effort and investment is required.



RECOMMENDATIONS



NCC, CBN and the new Federal Government should prioritise a resolution that is sustainable, and prevents future conflict, without imposing pain and suffering on already vulnerable communities.