



New Developments in the Nigerian Payment System: The National Domestic Card Scheme (AFRIGO)



Introduction

The Central Bank of Nigeria (CBN), in line with its mandate to promote stability, inclusion, and growth of the Nigerian financial and payment system, introduced the “**National Domestic Card Scheme**”, in collaboration with the Nigeria Inter-Bank Settlement System (NIBSS). The payment card was unveiled on the 26th of January 2023, in a bid to strengthen the cashless economy.

According to the CBN Governor, the National Domestic Card named “AfriGo” is designed to cater to the peculiarities of the Nigerian market which the existing card products have failed to address.¹ *Amongst other things “the scheme is important to plug in the gap that has remained in the economy since the introduction of the cashless policy, and will integrate the informal segment of our economy, reduce shadow banking, bring more Nigerians into the formal financial services with an attendant diversification of deposit portfolio which will further strengthen the stability of the banking industry”².*

It is interesting to note that the use of payment cards is not a novelty in Nigeria as usage has increased significantly over time. The new National Domestic Card, however, is different in that it is a local card targeted at domestic consumers for use solely within Nigeria. The National Domestic Card Scheme is discussed in this article along with its anticipated effects on financial services.

National Domestic Card (NDC) “AFRIGO”

(a) What are Card Schemes?

A card scheme is a central payment network that uses credit and debit cards to process payments. Its primary role is to manage payment transactions, including operations and clearing. Transactions are managed according to a set of procedures, rules, and arrangements that allow cardholders to use their cards with third parties (e.g., retailers and service providers).³

¹ “CBN Gov, Emeifele Unveils Nigerian National Domestic Card Scheme Afrigo” <https://www.cbn.gov.ng/FeaturedArticles/2023/articles/CBN_Unveils_National_Domestic_Card.pdf> accessed February 3, 2023

² Ibid.

³ “What Is a Card Scheme and How Do They Work?” (EBANX) <<https://business.ebanx.com/en/resources/payments-explained/credit-card-schemes>> accessed February 3, 2023



Users can conduct transactions using their debit, credit, or prepaid cards, thanks to the card scheme infrastructure. For instance, the technology supplied by a card system enables user to withdraw money from an Automated Teller Machine (ATM) or Point of Sale (POS) machine/agent. Mastercard, Visa, and Verve are the three main card brands in Nigeria. It is anticipated that AfriGo will join them as the fourth, significant player.

(b) How Does a Card Scheme Work?

There are four parties involved in card schemes - the cardholder, the -card issuer (which is usually a bank), the merchant, and the acquiring bank. Together, these four parties make up an open-loop system that enables customers to transact with merchants in a frictionless manner by delegating all of the necessary tasks to the acquiring bank and issuing bank respectively.

Typically, information regarding card transactions is sent from the acquiring bank to the issuing bank (from the merchant to the consumer). Thereafter, the payment is sent back to the acquirer for verification.⁴



c) What is the AfriGo Card?

AfriGo was birthed in Nigeria with continental aspirations, as 'AFRI' means culture, ethnic diversity, bravery, innovation, and growth while "GO" symbolizes progress, empowerment, inclusivity, and future-forward amongst others?⁵

The CBN developed the AfriGo card to allow Nigerians conduct domestic transactions in the same manner as they would with conventional debit cards. The AfriGo card is developed by AfriGopay Financial Services Limited, an affiliate of NIBSS which is licensed by the CBN and which is responsible for deploying and managing the National Domestic Card Scheme for Nigeria.⁶

According to analysts, AfriGo is an in-country scheme that is designed to address the specific requirements of the payment industry in Nigeria and provide services tailored to the Nigerian market and beyond. With the AfriGo card, the CBN can now compete in Nigeria's \$18.2 billion cards and payments market against multinational companies like Visa, Mastercard, Verve, and Interswitch.⁷

⁴ Ibid

⁵ "CBN Gov, Emezie Unveils Nigerian National Domestic Card Scheme Afrigo" <https://www.cbn.gov.ng/FeaturedArticles/2023/articles/CBN_Unveils_National_Domestic_Card.pdf> accessed February 3, 2023.

⁶ "Nigeria Launches National Payment Card" (ThePaypers) <<https://thepappers.com/payments-general/nigeria-launches-national-payment-card--1260076>> accessed February 3, 2023

⁷ Ibid accessed February 4, 2023



Advantages & Disadvantages of the NDC in the Financial Services Sector

The National Domestic Card will present a chance for the increase in financial inclusion rates in Nigeria by providing an avenue for the incorporation of the unbanked sector into the formal financial system. The Nigerian National Domestic Card Scheme will result in data sovereignty, lower card transaction costs, relieve strain on foreign exchange, and provide new economic prospects for Nigeria.⁸

Additionally, the card scheme opens up a whole new world of opportunities for the Nigerian card industry, which many nations have since identified and taken advantage of in developing their own domestic card programmes to supplement current foreign payment card service providers. The card programme also offers a crucial foundation for future innovation to address some of the most urgent problems in financial inclusion, SME payments, and trade facilitation, supporting the effort to build a strong digital economy for the Nigerian market, the African continent, and the rest of the world. Below are some of its major advantages and

Advantages

1. Financial inclusion: By implementing the use of AfriGo cards, a broad population of people, including those who were previously unbanked or underbanked, will be drawn to formal banking services in order to enjoy the benefits of the NDC. People can conduct transactions easily because the Card will be accepted at numerous ATMs and POS terminals across the nation. By doing this, domestic consumers would be catered for nationally, which is what the CBN has aimed to accomplish for decades.

Some of the ways that domestic card schemes can ensure financial inclusion are:

a) Partnership with financial institutions: Domestic card schemes can partner with local banks, microfinance institutions, and other financial service providers to offer their customers a range of financial services and products. This can help to increase access to financial services for people who may not have had access to traditional banking services.

b) Affordable fees and charges: Due to their lower operating costs, domestic card schemes can ensure that their fees and charges are affordable for their customers and that people are not discouraged from using financial services because of high costs.

c) Financial education and literacy programmes: Domestic card schemes can offer financial education and literacy programmes to help people understand how to use financial services effectively and make informed financial decisions. This can help to increase trust in financial services and promote widespread adoption of financial services among people who have previously found them undesirable.

2. Data sovereignty: Domestic cards can help to ensure data sovereignty, which is important for protecting the financial and personal information of cardholders, and for maintaining the integrity of the financial system within a country. Moreso, to ensure data sovereignty, domestic cards are usually designed in a way that the sensitive financial and personal information of cardholders is stored and processed within the country.

Hence, the card issuer must store all cardholder information within the country and implement strict security measures to protect this information from unauthorised access. More importantly, transactions made with domestic cards must be processed within the country, thereby ensuring that the financial and personal data of cardholders is not transmitted outside the country.

⁸ “CBN Gov, Emezie Unveils Nigerian National Domestic Card Scheme Afrigo” <https://www.cbn.gov.ng/FeaturedArticles/2023/articles/CBN_Unveils_National_Domestic_Card.pdf> accessed February 4, 2023



Disdvantages

Although these cards provide convenience and accessibility for consumers, there are several disadvantages that can affect a country's financial sector:

- a) **Limited reach:** Domestic cards are restricted to a single market, which limits their use to the country of origin. This can reduce the purchasing power of consumers when traveling abroad, as well as limit the reach of merchants and financial institutions.
- b) **Reduced competition:** By limiting the market reach, domestic cards can reduce competition in the financial sector. This can result in higher fees, less innovative products, and a lack of customer choice. A similar situation was when the Indian government mandated public banks to only issue RuPay cards. In the event that the Nigerian government do the same with AfriGo cards, it may lead to monopoly. **Lack of security:** Due to its novelty, domestic cards may not have the same level of security features as the more traditional international cards, which can result in higher levels of fraud and other financial crimes. Considerable resources will be required for capacity building to fight against fraud and also regulations which cover the activities of the licensed banks providing the services.
- c) **Dependence on local infrastructure:** Domestic cards rely on local payment systems and infrastructure, which can result in disruptions or failures that can negatively impact consumers and merchants.
- d) **Inefficient cross-border transactions:** Due to variations in law and payment systems amongst nations, domestic cards may be less effective for cross-border transactions. Users may therefore be more inclined towards using foreign payment cards for such transactions to reduce the use of numerous payment cards.

Guidelines on the use of National Domestic Card

The use of the Domestic Card is currently not governed by any established rules in Nigeria. However, the Guidelines on Card Issuance and Usage in Nigeria⁹ offers guidelines on the implementation of the Domestic Card. According to the Guidelines, only licensed banks with clearing capabilities are permitted to issue payment cards in Nigeria. Financial institutions without clearing capabilities can nevertheless issue cards by forming a partnership with another bank and receiving CBN authorisation.

In general, qualifying financial institutions can apply to join any of the current card schemes, issue payment cards to users directly, and then collect money from transactions. In essence, banks must apply for membership in the programme before they can issue AfriGo.

Use of NDC in Select Jurisdictions: Success Or Failure?

China, India, Turkey, and Russia are among the largest and most populous countries in the world, each with a thriving economy and a large consumer market. To meet the increasing demand for financial services in these countries, domestic card schemes have been established to provide a convenient and accessible way for consumers to pay for goods and services.

In **China**, **UnionPay** is the dominant domestic card scheme, with over 8 billion cards in circulation.¹⁰ It is a multi-purpose card that can be used for a wide range of transactions, including online shopping, ATMs, and POS purchases. The card is widely accepted in China and is becoming increasingly popular as a form of payment in other countries as well. Due to its vast population and swift economic growth, China offers lucrative opportunities for domestic card providers. In order to lessen China's reliance on international payment systems, the government has actively encouraged the use of domestic cards.

⁹ Guidelines for Card Issuance and Usage in Nigeria - Cbn.gov.ng" <<https://www.cbn.gov.ng/Out/2014/BPSD/Approved%20Guidelines%20for%20Card%20Issuance%20and%20Usage%20in%20Nigeria%20.pdf>> accessed February 5, 2023

¹⁰ Person and Li S, "Explainer: China Unionpay, Russia's Potential Payments Backstop" (Reuters April 21, 2022) <<https://www.reuters.com/business/finance/china-unionpay-russias-potential-payments-backstop-2022-04-21/>> accessed February 5, 2023



The success of domestic cards in China is also attributable to the pervasive usage of mobile devices and the growth of mobile payment services.¹¹ This widespread acceptance makes it a convenient and reliable payment option for consumers in China, especially for those who do not have access to credit cards or other electronic payment methods.

However, the presence of other established players in China's electronic payments market, such as **Alipay and WeChat Pay** and the rise of fintech companies that are disrupting the traditional banking and payments industry¹² have constituted challenges to the growth of UnionPay.

The CBN in establishing AfriGo should therefore be conscious of existing competition in the market and be prepared to differentiate itself from existing players. The new scheme should focus on identifying and addressing gaps in the market to gain market share.

In India, the RuPay card scheme was launched in 2012 by the National Payments Corporation of India (NPCI) to provide a domestic alternative to international card schemes such as Visa and Mastercard.¹⁴

The success of the card in India is partly attributable to the government's efforts to promote a cashless society. To improve financial inclusion and decrease the nation's dependency on cash transactions, the government has been encouraging the use of digital payment options, including domestic cards. The success of the card in India has also been influenced by the expanding middle class and the rising popularity of e-commerce.¹⁵

Another factor that has contributed to the success of Rupay is its wide acceptance. Rupay is accepted by almost all banks in India, and the NPCI has also partnered with various merchants and payment gateways to promote the use of Rupay. This has made it easier for customers to use Rupay for their transactions and has helped to increase its popularity. For example, the government has launched the **Pradhan Mantri Jan Dhan Yojana**, a scheme that provides financial services to unbanked and underbanked people in the country. Rupay has been used as the primary payment system for this scheme, which has helped to increase its adoption.

Its lower transaction fees compared to other payment systems could also be said to have largely contributed to its success.

However, the dominance of Visa and Mastercard in the global payment system,¹⁷ and the slow adoption of digital payments in some parts of the country (especially rural areas)¹⁸ are some of the challenges faced by the RuPay.

As discussed above, one of the key factors that contributed to the success of Rupay was its lower transaction fees compared to other payment systems. The CBN in establishing AfriGo in Nigeria should prioritize cost-effectiveness to attract consumers and merchants. Rupay's wide acceptance by almost all banks in India was also crucial to its success. Hence, the CBN should prioritize building a strong network of banks and merchants to ensure widespread acceptance

More importantly, the slow adoption of digital payments in rural areas was a major challenge faced by Rupay. The CBN should consider adequate sensitization of the inhabitants of the rural areas on the use and benefits of digital payments to promote its adoption in those areas.



¹¹ World Bank Group, "China Economic Update - June 2022" (World Bank June 12, 2022) <<https://www.worldbank.org/en/country/china/publication/china-economic-update-june-2022>> accessed February 5, 2023

¹² China Payment Systems Guide: Alipay vs WeChat Pay vs UnionPay (Mind Studios January 24, 2023) <<https://themindstudios.com/blog/china-payment-systems-guide/>> accessed February 5, 2023

¹³ Chinese fintech companies and their "going out" strategies (Emerald Insight September 24, 2021) <<https://www.emerald.com/insight/content/doi/10.1108/JIDE-07-2021-0003/full/html>> accessed February 5, 2023

¹⁴ Tamba N, "What Is a RuPay Debit Card: Types, Benefits & Features" (Forbes January 31, 2023) <<https://www.forbes.com/advisor/in/banking/what-is-rupay-debit-card/>> accessed February 10, 2023

¹⁵ "Decoding the Rise of Rupay Cards in India over the Years" (Paytm Business Blog January 3, 2023) <<https://business.paytm.com/blog/rupay-card-growth-in-india-ft/>> accessed February 5, 2023

¹⁶ RuPay PMJDY Debit Card <<https://www.rupay.co.in/our-cards/rupay-debit/government-scheme/rupay-pmjdy-card>> accessed February 10 2023

¹⁷ Mastercard's India Wipeout, Visa Is Next As Rival RuPay Prepares To Go Global <<https://seekingalpha.com/article/4476353-mastercard-visa-stock-india-wipeout-rupay-global>> accessed February 10 2023

¹⁸ What explains low adoption of digital payment technologies? Evidence from small-scale merchants in Jaipur, India (Plos One July 31, 2019) <<https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0219450>>



Also, Rupay faced limited acceptance by international merchants and payment gateways. It is important that the CBN considers building partnerships with international payment systems to promote its acceptance for cross-border transactions.

Conclusion

The implementation of domestic cards in Nigeria is expected to bring about numerous benefits to the country and its citizens. It would increase financial inclusion and accessibility, particularly for those who previously lacked access to traditional banking services.

To ensure the successful implementation of the AfriGo Card in Nigeria, it is important that well-designed guidelines on its use and operations be released to guide how the card is to operate efficiently, securely, and transparently, in order to increase adoption, reduce costs, and enhance the overall competitiveness of the domestic card scheme. From experience of other jurisdictions, a standard guideline by the CBN on the use of AfriGo should capture several key aspects such as regulatory oversight, security protocols, card issuance and authentication, monitoring and reporting, consumer protection, and interoperability.

In addition to prioritising cost effectiveness, widespread acceptance, increased awareness in rural areas, international acceptance, and incentives to encourage adoption, it is expedient that the CBN works closely with key stakeholders, such as banks, merchants, and consumers, to ensure that the new domestic card system meets their needs and addresses their pain points.

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