

The Future of Banking in Nigeria

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ABSTRACT

The future of banking in Nigeria is poised for significant transformation which is pointing towards a decentralized, AI-enhanced, and highly inclusive system that leverages technology, evolving market demands, regulatory reforms, and policy to reshape the way Nigerians interact with financial services. Some key developments include the rise of mobile-first banking, the emergence of fintech-powered super-apps, and the growing adoption of artificial intelligence, cloud computing, and cybersecurity solutions. Regulatory reforms, such as the introduction of open banking guidelines and domestic payment systems like AfriGo and the eNaira, signal a shift toward a more inclusive, data-driven financial ecosystem. In the paper, we look at the prospects, challenges, and the benefits of the future of banking in Nigeria.

KEYWORDS: *Banking in Nigeria, artificial intelligence (AI), regulatory reforms, cloud computing, cybersecurity solutions, Fintech-powered super-apps, mobile-first banking, blockchain.*

INTRODUCTION

The banking sector in Nigeria is experiencing a paradigm shift which is propelled by technological innovation, evolving customer expectations, and increasingly supportive regulatory environment. Nigeria as Africa's most populous nation with over 200 million citizens, with more than half under the age of 30, represents both a vast dynamic testing ground for the future of financial services, as shown in Figure 1.

Traditional brick-and-mortar banking is rapidly giving way to digital-first models, as being fueled by the explosive growth of mobile phone usage, internet penetration, and fintech adoption. Financial technology startups and digital-only banks are transforming how Nigerians access savings, credit, and payment solutions, often bypassing the limitations of legacy infrastructure. Furthermore, the Central Bank of Nigeria (CBN) has introduced progressive frameworks such as open banking guidelines and digital payment systems like AfriGo and the eNaira, positioning the country as a regulatory leader in Africa. Despite these advances, Nigeria still faces some significant challenges such as

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infrastructural gaps, financial exclusion in rural areas, cybersecurity threats, and economic volatility. These notwithstanding, the stage is set for a re-imagined financial ecosystem via the convergence of mobile technology, AI, blockchain, cloud computing, and robust partnerships between banks and fintech firms [1-6], as shown in Figures 2 and 3.

HISTORY OF BANKING IN NIGERIA

1. Colonial Foundations (Late 19th – Early 20th Century) or Colonial Era

The Nigerian banking system began with the establishment of British banks to serve colonial interests.

- The African Banking Corporation set up shop in 1892, followed by its takeover by the Bank of British West Africa (BBWA) in 1894 – marking the onset of modern banking in Nigeria.
- 1917 – Barclays Bank DCO (now Union Bank) was opened.
- 1933 – National Bank of Nigeria was founded as one of the first indigenous banks.

However, many of the early indigenous banks failed due to lack of capital, poor management, and inadequate regulation [7-9].

2. First Banking Ordinance (1952)

The Banking Ordinance of 1952 was enacted to regulate and license banks due to widespread bank failures. The key points were:

- Required minimum capital of 12,500 Pounds.
- Introduced inspection and licensing procedures.
- Survival of only a few banks like BBWA, Barclays, and UBA [10].

3. Establishment of the Central Bank of Nigeria (1958)

- The Central Bank of Nigeria (CBN) was established by the *CBN Act of 1958* and began operations in 1959.
- Issued the Nigerian currency, managed reserves, and regulated credit [11].

4. Post-Independence and Indigenization (1960s-1970s)

- Government encouraged the development of indigenous banks.
- The Indigenization Decrees (1972 & 1977) mandated that Nigerians must own majority shares in banks.
- Emergence of banks like Afribank, Union Bank, and First Bank under new Nigerian ownership [12].

5. Banking Boom and Distress (1980s-1990s)

Boom:

- The Structural Adjustment Program (SAP) in 1986 liberalized the economy.
- Explosion in the number of commercial and merchant banks (over 120 by early 1990s).

Distress:

- Poor regulation, fraud, and undercapitalization led to a banking crisis.
- Failed banks tribunal established in 1994.
- NDIC (Nigeria Deposit Insurance Corporation) began liquidating failed banks [13].

6. Banking Consolidation (2004-2006)

- Under CBN Governor Charles Soludo, capital base requirement was raised from =N=2 billion to =N=25 billion.
- Forced consolidation reduced banks from 89 to 25, through mergers and acquisitions [14].

7. Post-2008 Global Financial Crisis Reforms

- Another crisis revealed undercapitalized banks and high non-performing loans.
- Sanusi Lamido Sanusi (CBN Governor 2009-2014) restructured banking:

*Removed CEOs of failing banks.

*Created AMCON (Asset Management Corporation of Nigeria) to buy toxic assets.

*Introduced new corporate governance rules [15].

8. Recent Developments (2010s-Present)

- The emergence of digital banking (e.g., Kuda Bank, Opay, Rubies Bank, V Bank, Kudi Money, Palmpay, Eyowo, VFD Microfinance Bank, FairMoney), as shown in Figures 4 and 5.
- New CBN licenses: Payment Services Banks (PSBs) and Fintech regulation.
- Emphasis on financial inclusion and cashless policy.
- Introduction of eNaira, Africa's first central bank digital currency (CBDC), in 2021 [16].

KEY DEVELOPMENTS

Some of the key developments that could shape the banking industry include [17, 18]:

1. Surge in Electronic or Digital Payments: The Central Bank of Nigeria's (CBN) Payments System Vision 2025 aims to enhance digital adoption, security, and interoperability. Also to be more prevalent is the contactless payment systems and open banking frameworks. Digital transactions have ballooned, with e-payment volumes hitting \$702.6 billion (roughly) in the year to December 2024 - a 79.6% increase from \$400.5 billion in 2023. Transaction counts also grew by 15.5%, from 9.7 billion to 11.2 billion [19].
2. Financial inclusion: Digital banking and fintech solutions will continue to drive financial inclusion, with a focus on accessibility, affordability, and sustainability.
3. Regulatory & Policy Innovations/Reforms: Introduction by CBN of measures to enhance supervisory frameworks, to ensure macroeconomic stability, and foster sustainable growth.
 - In January 2025, the CBN launched the FX Code, establishing standards for ethical foreign exchange transactions – FX & Bureau De Change (BDC) Policies [20].
 - A waiver of the annual license renewal fee for BDCs, reducing their operational burden.
 - Suspension of extensions for export proceeds repatriation, reinforcing timely foreign exchange compliance.
 - ATM Transaction fees revised.
 - The CBN lifted caps on recognizing Additional Tier 1 (AT1) capital until March 2026 to help banks meet equity requirements. It also restricted dividend and bonus payouts for certain banks [20].

- National Payments Innovations: NIBSS rolled out the National Payment Stack (NPS) in 2025 to evolve Nigeria's instant payment ecosystem [21].
- Credit Guarantee & Inclusion Policies [21, 22].
- 4. Fintech Expansion and Digital Transformation
 - PalmPay's rapid growth: The neobank-style mobile platform now serves around 35 million users and 1 million SMEs, leveraging "smartphone-first" strategies and partnerships (notably with Transsion) to embed its app on widely sold devices. Its vision is to evolve into a full-fledged financial super-app that includes loans and insurance [23].
 - Moniepoint achieves unicorn status: The startup raised \$110 million, reaching a valuation exceeding \$1 billion, backed by investors like Google. It processes over 800 million transactions monthly, valued at more than \$17 billion, and is expanding into digital payments, banking, FX, credit, and business tools across Africa [3, 24, 25].
 - The CBN AfriGo Pay (introduced in January 2023) continued to grow, offering nation-wide card services (debit, credit, prepaid, virtual) to enhance financial inclusion and reduce reliance on global card schemes [26].
- 5. Banks Boost IT & Digital Infrastructure
 - Nigerian banks have drastically increased their technology spending in 2024, reaching =N=518.5 billion, up from =N=248 billion in 2023 i.e. over a 100% increase [27, 28].
 - Access Holdings led the surge, allocating =N=193.5 billion to IT infrastructure. Other key investments are:
 - GTCO: =N=88billion
 - Zenith Bank: =N=67.3 billion
 - Fidelity: =N=56 billion
 - UBA: =N=48 billion
 - Stanbic IBTC: =N=33.4 billion
 - FCMB: =N=26.8 billion
- 6. Large-Scale Recapitalization by the CBN
 - In April 2024, the Central Bank of Nigeria (CBN) launched a comprehensive Banking Sector Recapitalization Programme, requiring banks to meet higher minimum capital thresholds by March 2026 – ranging from =N=500 billion for international banks to =N=50 billion for merchant banks, and =N=10-20 billion for non-interest banks.
 - However, by mid-2025, only eight banks had met up with these new capital requirements, leading to discussions around mergers and acquisitions among others yet to comply [29].

SOLUTIONS TO CHALLENGES FACING THE BANKING INDUSTRY IN NIGERIA

The Nigeria banking industry continues to grapple with numerous challenges that threaten its stability and growth, despite navigating through policy reforms, technological advancements, and diverse demands of a growing population. Some of the solutions to the challenges facing the Nigerian banking sector include:

1. Instability in the banking sector: The banking sector in Nigeria has faced periods of instability characterized by financial distress among banks. This has been linked to external economic shocks, poor internal risk management practices, and the overreliance on volatile revenue sources like oil exports. There is need to strengthen regulatory frameworks for the stability and resilience of the banking sector. For this reason, the CBN has mandated banks to bolster their capital bases by March 2026. This directive aims to mitigate economic challenges, including currency devaluation and inflation, and promote industry stability.
2. Capital adequacy requirements: In order to fortify the financial sector, the Central Bank of Nigeria (CBN) has implemented stringent capital adequacy requirements. These regulations mandate banks to bolster their balance sheets to ensure that they have enough capital to weather economic fluctuations and currency devaluation. This policy is to create a more resilient banking sector, but of which smaller banks face challenges meeting these thresholds. Many are therefore forced to consider mergers, acquisitions, or even a downgrade in their operating licenses, reshaping the competitive landscape of the industry.
3. Fiscal indiscipline and economic volatility: The Nigerian economy is heavily influenced by fluctuations in global oil prices, which directly impact government revenue. Fiscal indiscipline such as inconsistent policies and uncoordinated economic strategies, further complicates the situation – leading to high default rates on loans, as businesses and individuals struggle to meet repayment obligations during economic downturns. The ripple effect undermines the banking sector's profitability and stability, making it harder to attract foreign and domestic investments.
4. Inadequate infrastructure: The effectiveness of banking operations is closely tied to the quality of a country's infrastructure. In Nigeria, there exist the deficiencies in critical infrastructure, particularly in the payment system, impeding the

seamless exchange of financial claims and the efficient functioning of intermediation activities. Furthermore is the broader infrastructural challenges such as unreliable power supply and limited access to quality telecommunications, which also exacerbate operational difficulties for banks – causing increased operational costs and as well as hinder the adoption of modern banking technologies.

5. Technological adoption and innovation: The journey towards full digital transformation is still ongoing. This will enhance financial inclusion by extending services to unbanked or underserved populations, particularly in the rural areas due to limited branch access, poor infrastructure, and low digital literacy. With this, there are challenges such as cybersecurity threats as a risk to both banks and their customers, hence the need for robust security measures to protect sensitive financial data.

Solution would include:

- Expand agency banking, mobile agents, and fintech partnerships to bridge access gaps.
- Leverage mobile technology and digital wallets to reach underserved demographics.
- Promote financial literacy, including targeted programs for women and youth.
- Encourage partnerships among traditional banks, fintech startups, regulatory bodies, and NGOs to expand outreach.

6. Regulatory complexity & Weak corporate governance: Weak corporate governance and cumbersome regulations are persistent issues in Nigerian banks, leading to poor management and financial instability. Problems such as instability of board tenures, internal conflicts, and ownership crises have undermined effective oversight and strategic decision-making, resulting in bank distress and failures, thereby eroding stakeholder confidence.

Solution to this are:

- Foster regulatory collaboration, involving CBN, NAICOM, PenCom, and the Finance Ministry, to streamline oversight and encourage innovation.
- Co-develop clearer, consistent regulation through dialogue between banks and regulators.
- Strengthen corporate governance, internal controls, and ethics – via transparency, appropriate incentive structures, and oversight reforms.

7. Low ethical standards: Prevalent in the Nigerian banking industry is ethical misconduct, manifesting in various forms such as fraudulent

activities, insider abuse, and corruption. Unethical practices attract regulatory scrutiny and have detrimental effects on the sector's integrity. Addressing these governance and ethical challenges is crucial for the Nigerian banking sector to restore public trust and ensure sustainable growth. This can be achieved by implementing stringent corporate governance practices and fostering a culture of ethical behavior.

8. Political instability: Political instability in Nigeria is also a major detriment to bank stability. This leads to economic downturns, which is characterized by fluctuating exchange rates and declining GDP, adversely affecting bank profitability. Furthermore, this as well causes increase in non-performing loans and financial distress within the banking sector.
9. Overreliance on public sector funds: Most banks in Nigeria heavily depend on public sector deposits and government revenue collection. This overreliance poses significant risks, as fluctuations in government revenues, often tied to volatile oil prices, can lead to liquidity challenges for the banks. Some banks are reported to have dependency ratios exceeding 70%, making them vulnerable to fiscal instabilities.
10. Cybersecurity & Fraud Risks: Rampant cyber threats (phishing, malware, data breaches), increasing fraud incidents, and insufficient security investment are eroding trust and risking financial losses, as shown in Figure 6.

Solution:

- Banks must adopt multi-factor authentication, biometric security, encryption, and real-time fraud detection powered by AI and machine learning.
- Construct resilient ML systems engineered against adversarial attacks and ensure AI deployment is secure and trustworthy.
- Facilitate regulatory frameworks and partnerships to raise cybersecurity standards across the industry.

11. Strengthening the Fintech Ecosystem: Traditional banks lag behind nimble fintech players, losing out on innovative customer-centric services.

Solution:

- Collaborate with fintechs like Paystack, Flutterware, Moniepoint, PalmPay to innovate service offerings (mobile payments, lending, onboarding, super-apps).

- These partnerships will enable banks to tap into fintech strengths – user experience, mobility, scale.
- Support of fintechs also will advance financial inclusion and competitiveness [3, 24, 30, 32-35].

12. Lack of access to basic financial services: Many Nigerians still face difficulties accessing financial services due to poor internet connectivity, limited digital literacy, and distrust of the formal financial system [36].

CONCLUSION

Nigeria's banking future is not binary – it's hybrid and dynamic. Traditional banks must accelerate digitalization – adopting mobile-first interfaces, neobank partnerships, and streamlined digital lending – to stay competitive. In addition, innovation in AI and blockchain, plus open banking models, will drive deeper integration and transformation, but regulatory clarity remains essential.

Regulatory modernization and infrastructure development, combined with capital consolidation, will reinforce banking sector stability and broaden outreach. To sustain digital transformation, the sector must invest deeply in cybersecurity, extend digital infrastructure, and enhance user trust.

More information on the Future of Banking in Nigeria can be found in the books in [37-41] and the following related journals:

- Finance & Accounting Research Journal
- African Banking and Finance Review Journal (ABFRJ)
- International Journal of Research in Finance & Management
- Advance Journal of Banking, Finance and Investment
- Asian Journal of Economics, Business and Accounting
- African Development Financial Journal

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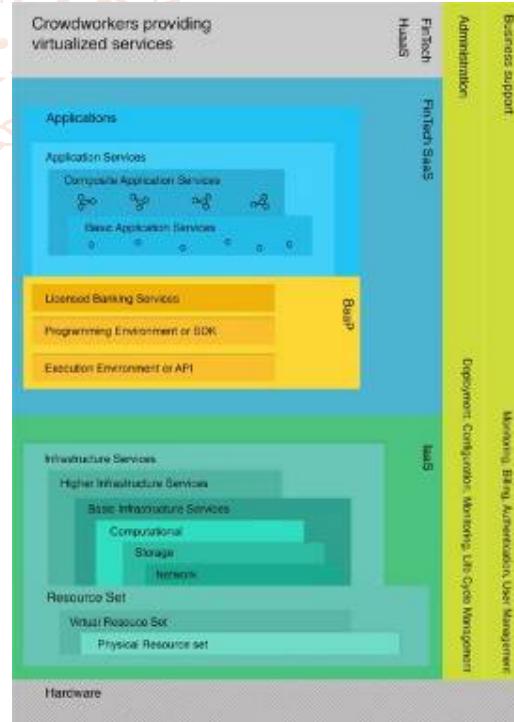


Figure 1. Banking as a service

Source: https://en.wikipedia.org/wiki/Banking_as_a_service

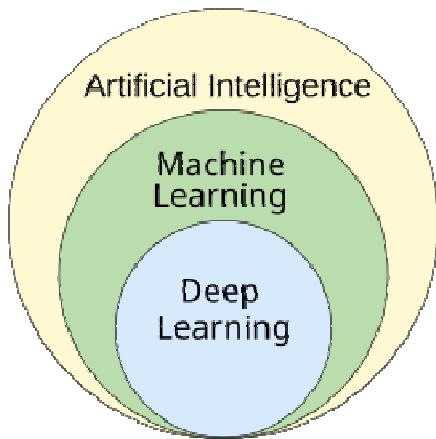


Figure 2. Artificial intelligence

Source:https://en.wikipedia.org/wiki/Artificial_intelligence

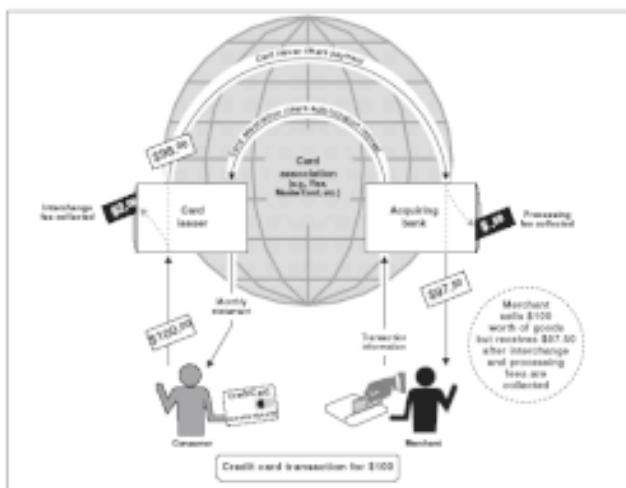


Figure 3. Financial technology

Source:https://en.wikipedia.org/wiki/Financial_technology

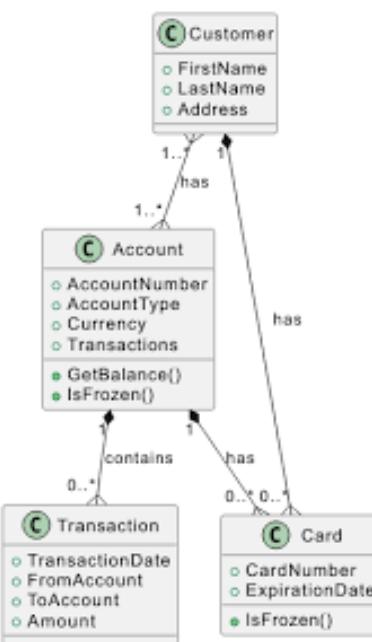


Figure 4. Digital banking

Source:https://en.wikipedia.org/wiki/Digital_banking



Figure 5. Opay

Source:<https://en.wikipedia.org/wiki/Opay>

From: authenticacionmail@trust.omerbank7.com
To: johnsmith@gmail.com
Subject: A new login to your bank account



Dear account holder,
There has been a recent login to your bank account from a new device:
IP address: 192.168.0.1
Location: Miami, Florida
4 new transactions have been made with this account since your last login.

If this was not you, please reset your password immediately with this link:
<https://trust.omerbank7.com/reset-password>

Thank you,
Bank America

Figure 6. Phishing

Source:<https://en.wikipedia.org/wiki/Phishing>