

Nigeria's telecommunications industry: Looking back, looking forward 2

Whilst the potentials for developing new services is endless, Telcos must brace themselves for a probable scrutiny by regulatory agencies. In this regard, there would be a need to continually engage relevant agencies in each industry to obtain clear guidance around a new service opportunity to ensure certainty when the dividends begin to roll in

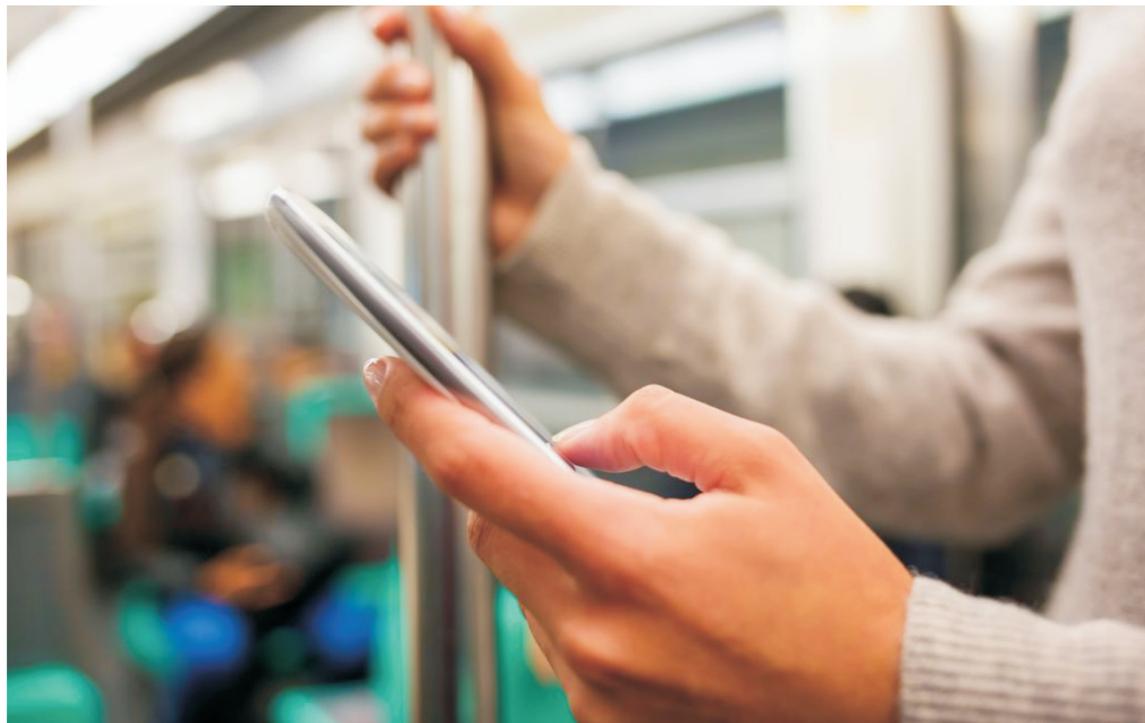
The telecommunications industry in Nigeria is one that can currently be described as self-aware and steadily adapting to the stark realities of business – changing trends, intense rivalry, regulatory uncertainties etc. There is a general understanding that to remain sustainable in the current industry, there is a need to recreate existing products, diversify into new areas for which the capabilities and resources are near, improve on general business processes and navigate through the regulatory landscape.

In Part One of this article, we alluded to the diversification of Telecommunication Operators (Telcos) into other areas of business e.g. financial services. However, we did not explore the mechanics. What exactly are they doing? Are they becoming banks, insurance companies, record labels, film production companies etc. in which case, do they create and sell these services like traditional players or are they just conduits – acting as enablers?

Telcos are currently collaborating with different industries, acting as conduits (and creating new revenue streams) to reach out to potential customers. These industries understand that Telcos have a direct and unavoidable access to a huge customer base and own the network infrastructure to conclude a commercial dialogue. For instance, Telcos are enabling banks and insurance companies sell financial packages to hitherto 'invisible customers'. Using data analytics, Telcos can unearth 'invisible customers', promote solutions and ensure a sale is made.

The following are typical case studies:

i) Mobile money: Before the turn of the 21st century, most money transfers from the urban or sub-urban areas to the rural areas was largely manual. Transferors generally used messengers to physically deliver cash to recipients in the rural areas with the hope of 'privacy and security of the transaction' – a hope that was often dashed. Enter the



21st century and there was an explosion of bank branches and consequent surge of new account holders – a scenario that did not overcome this challenge.

In conjunction with the banks, Telcos are able to provide a solution that allows a user execute a money transfer using a personal identification number and secured text message. At the end of the text message is the recipient who can reach out to the corresponding bank to get the transferred money. Whilst the fee earned from this transaction represents increased income in the bank's primary business, the fee earned by the Telcos represent income from a new line of business.

ii) Insurance services: Telcos now purport to provide health and life insurance – a hugely untapped market. Whilst some blame the state of the insurance sector on the economy, perhaps Telcos are thinking differently. Who sold the insurance product to the customer? How was the product sold? Given

the profile of this customer (information which they have privy to), was there a better way to sell the product? Have insurance companies actually reached out to all potential customers (again, an asset which the Telcos have)?

Telcos are capable of profiling the customers and selling the appropriate insurance product to them. In this regard, the Telcos act as insurance agents – collecting premiums vide deduction of airtime and knocking off traditional insurance brokers.

Again, whilst the premiums earned represent increased income in the insurance company's primary business, the commission earned by the Telco's represent income from a new line of business.

iii) Music and video marketing: In Nigeria, artistes in the music and movie industry are constantly plagued with the nefarious activities of pirates. Creative works are illegally produced/duplicated and sold to customers vide

compact discs – a situation that has eroded the earning potential of these artistes. With the ubiquity of the internet and rise in smart phone usage, artistes are able to knock-off these pirates by collaborating with the Telcos to securely sell their music and video works to customers. To the Telco's this arrangement is a double-edged sword – enables the artistes fight piracy and compete for a share of income earned by hitherto formal marketers of the music and video works.

Globally, the story is not different, international Telcos are giving the traditional players in various industries a run for their money. Based on the case studies highlighted above International Telcos are now competing with:

- Leaders in the International Money Transfer space (e.g. Western Union) for market share. In this regard, relatives in the developed countries are able to send money home using the mobile money platforms of these Telcos.

- Major Insurance marketers who were once responsible for sourcing and selling insurance products to customers
- Established online distribution platforms (e.g. iTunes etc.) who have since dislodged the traditional music and content sales outlets.

Whilst the potentials for developing new services is endless, Telcos must brace themselves for a probable scrutiny by regulatory agencies. In this regard, there would be a need to continually engage relevant agencies in each industry to obtain clear guidance around a new service opportunity to ensure certainty when the dividends begin to roll in.

Conversely, regulatory agencies must not stifle the creativity of Telcos – they must seek to understand the model of each business opportunity and to the extent that the Telcos have done nothing more than automate an erstwhile manual process (which was not subject to regulation), the relevant agencies must ensure consistent application of rules.

This publication contains general information only and Akintola Williams Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Akintola Williams Deloitte a member firm of Deloitte Touche Tohmatsu Limited, provides audit, tax, consulting, accounting and business process solutions, corporate finance and risk advisory services to public and private clients spanning multiple industries. Please visit us at www.deloitte.com/ng



International capabilities with local delivery.

At Deloitte, we offer practical suggestions to help companies navigate through tax and other business issues. Visit us at www.deloitte.com/ng and find out how we can help you

Oluseye Arowolo
Partner | Tax & Regulatory Services
oarowolo@deloitte.com

Fatai Folarin
Lead Partner | Tax & Regulatory Services
ffolarin@deloitte.com