

## Case Study I: MTN Nigeria Sim Card De-registration Scandal

### New twist in MTN Nigeria sim scandal



MORE TO IT? MTN Nigeria was fined \$5.2bn by regulators for failing to cut off users with unregistered SIMs, but the company could be paying the price of a kidnapping.

The woes afflicting MTN in Nigeria have taken a new twist after it emerged the company could be paying the price for one of the most prominent kidnappings to hit the West African country.

There are suggestions the company's chief executive for the Nigerian entity could be relieved of his duties following a nasty turn of events in recent days.

The Nigerian Communications Commission (NCC) recently slapped MTN Nigeria, the company's biggest operator with 62 million subscribers, with a record \$5.2-billion fine for failing to deactivate certain SIM cards by the June regulatory deadline.

The South African-headquartered company failed to deactivate more than 5-million subscribers culminating in a landmark fine. Information has emerged that there is more to the hefty fine than the failure to register the non-compliant subscribers.

The reason for the hefty fine, sources say, is the kidnapping in September of Chief Olu Falae, who was secretary to the military government of Ibrahim Babangida, and who also had a short stint as finance minister in 1990. He was a runner-up candidate in the 1999 presidential elections that ushered in democracy to Nigeria.

In a mysterious turn of events, Fulani herdsmen abducted Falae on his 77th birthday, from his farm on the outskirts of Akure in Ondo State. He was freed after three days amid confusion over whether a ransom had been paid.

Police denied money had been paid, but the veteran politician's family said they had paid some ransom, although they did not specify the amount. Newspapers reported that the kidnappers were asking for a ransom of N100-million (about \$500 000).

It was established investigations by the NCC had concluded that Falae's kidnappers used MTN SIM cards to negotiate the ransom. During the probe, MTN failed to identify the users of the SIMs as they were not registered, much to the ire of the NCC.

"Thus, the penalty ceased to be a regulatory issue and became an issue of national security," said an informant. Asked for comment, MTN Group spokesman Chris Maroleng was tight-lipped. "We don't discuss matters pertaining to that, but talks are in progress with the regulators," he said in Johannesburg when phoned for a comment.

MTN has endured what has arguably been its most challenging week since resuming operations in Nigeria, leading to speculation its chief executive in Nigeria, Michael Ikpoki, could pay with his job after allowing the more than 5.1-million unregistered SIM cards in the hands of unknown subscribers.

The company's bigwigs have been in Nigeria for talks with the regulator and there has been suggestions executive changes were imminent.

"We don't speculate on issues pertaining to company operations. Having said that, I cannot comment whether our company intends to take such action (firing MTN's Nigeria chief executive)," Moruleng said.

Meanwhile, coinciding with negotiations between the subscriber and regulator, it was confirmed MTN Nigeria's operational licence had been extended.

While the news was welcome - considering speculation that this would not be the case - the development somehow worsens the woes of MTN as the announcement comes at a time it is facing paying the hefty fine. The sum of more

than \$94.225-million is payable as a spectrum fee for the five-year extension period, by no later than December 31.

Amid the unprofitable operating atmosphere at the moment, analysts projected MTN would persevere in this lucrative market in the continent's biggest country by population. In a country of more than 173-million people, MTN has a huge base of more than 60 million subscribers.

"MTN has invested far too much, and stands to lose too much, simply to pull out of that market. Nigeria continues to be seen as the mobile market with the greatest potential in Africa, and its unlikely MTN would walk away from that," said Arthur Goldstuck, managing director of World Wide Worx.

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Source: <https://www.africanindy.com/news/new-twist-in-mtn-nigeria-sim-scandal-1371013>

## **Nigeria is fining MTN \$1,000 per illegal sim card even though customers generate just \$5 a month**

Nigeria's sim card registration laws have dealt a heavy blow to Africa's largest mobile network, MTN. In [a notice sent](#) out to its shareholders today, MTN confirmed that the Nigerian Communications Commission (NCC) fined it \$5.2 billion for failing to disconnect 5.1 million unregistered sim cards before the end of the August and September deadlines, as set by the NCC.

MTN's shares declined by as much as 12% on Monday on the Johannesburg Stock Exchange—the biggest one-day drop since November 1998, [according to Bloomberg](#). Though MTN has said it is working with the Nigerian regulator to resolve the matter, there is a concern with investors that the South African telco might have to cough up the full fine.

MTN- this is a massive fine probably equates roughly to 3 years earnings in total and also +/- the value of the complete Nigerian business

[3:58 PM - Oct 26, 2015](#)

"Its an extremely punitive fine," said Dobek Pater of Africa Analysis. "The regulator has approached the matter in a quite heavy-handed way, but there seems to be no outright objection from MTN in the announcement of the fine. I think MTN will opt to enter into negotiations with the NCC."

According to MTN's the average revenue per user (ARPU) each month in Nigeria has steadily declined to around \$4.99 in the three months to Sept. 30. NCC is effectively fining MTN \$1,000 for each of the disconnected lines. MTN said it had reconnected 3.4 million of the customers with registered sim cards by the end of September.

In a bid to have more subscribers on their books, many telcos have sold some unregistered sim cards without obtaining any subscriber information since [GSM network services](#) were launched in the country in 2001. This [makes it difficult](#) for Nigerian authorities to investigate and resolve crimes that have been committed by users of unregistered sim cards.

[Since 2011](#), Nigeria's NCC has compelled telcos to register the sim cards of its subscribers—by obtaining biometric information, identity documents, photographs and other information—this in an attempt to track and curb criminal activities carried out over mobile networks. Other African countries have introduced similar rules to help thwart fraudsters and even terrorist plots.

MTN's results for the three months to Sept. 30 show how MTN's subscriber base declined to 62.5 million in Nigeria. The company said that it would be [cutting its subscriber forecast](#) in Nigeria for the year, after it was set to lose the 5.1 million unregistered subscribers.

MTN is Nigeria's biggest mobile network and Nigeria is also MTN's biggest market. Africa Analysis's Pater said that market dominance might have influenced the regulator's decision to impose a hefty fine as way to discourage uncompetitive behavior and encourage compliance.

But with declining average revenue per user (ARPU) figures for MTN Nigeria, operating in Africa's biggest economy [has been a bit of bumpy ride](#) in recent months.

Over the past year, the South African-headquartered company has had to deal with the devaluation of Nigeria's currency, the Naira, as well as [a crippling national fuel crisis](#) in May this year, which left many businesses left in the lurch—a blow for the operator, as it spends [at least \\$40 million](#) annually on diesel in Nigeria. On the regulatory front, the company is faced with [a ban on promotional pricing](#) which has made it difficult for the company to offer competitive rates to its subscribers.

MTN Group's spokesperson, Chris Maroleng, declined to comment on the fine.

Source:

<https://qz.com/africa/533041/africas-largest-mobile-network-is-being-fined-5-2-billion-for-flouting-nigerias-sim-card-rules/>

## **Discussions**

What are the critical issues presented in the cases?

What was the drive by Management to breach regulatory requirements?

Where could risk management, internal controls and compliance with regulation have been augmented?

What role should the following have played better? The Board, Management, Risk, Internal Audit and Compliance?