

Nigeria's Financial Inclusion: The Way Forward

The Financial Inclusion Gap.

Introduction

The best way to describe financial inclusion is welcoming new members into an exclusive club or religious body and providing them with essentials like access, an onboarding session, and empowerment to be perpetual members of your exclusive club/body, the difficulty level usually progresses along each activity.

In Christian circles, even angels rejoice when a 'soul has been won' before the tougher phase – sanctification. In a nutshell, this is the reason why financial inclusion is sought, despite the argument that excluded persons are either poor or economically unproductive.

“Financial exclusion is very much a symptom of poverty; as is a cause.”

Financial inclusion is described by the World Bank as the provision of useful, relevant, and affordable financial services such as

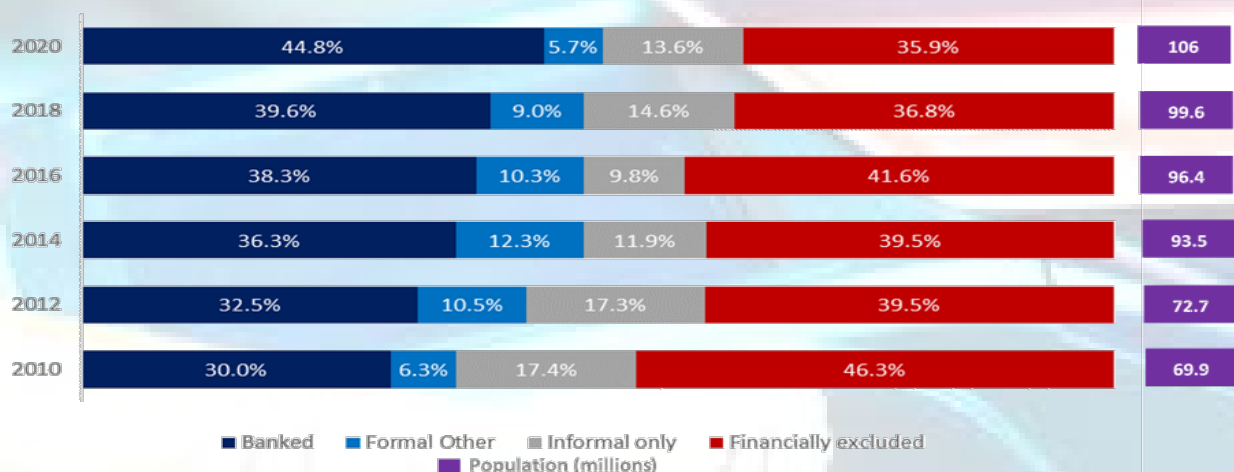
payments, credit, and insurance to the financially excluded including individuals and SMEs.

To understand financial exclusion better in the Nigerian context, think of the pop shop down the road, the “mallam” who is a gateman but sells low-value groceries through the window of room, or the smallholder farmer in Northern Nigeria or the woman who sells tomatoes at the open market in southwestern Nigeria.

These personas face different degrees of financial exclusion under a cocktail of factors such as illiteracy, social class, location, employment type, economic inactivity, inability to use digital products and so much more.

These individuals are financially excluded, that is, they lack access to affordable, useful, and relevant financial services such as payments, credit, basic insurance, etc. This lack translates into limited economic wellbeing, as the excluded individuals feel

Access to Financial Services (2010-2020)



little or no impact during periods of economic growth.

To attain economic development, enhance the economic wellbeing of the country and reduce inequality, developing countries like Nigeria set out to reduce the financial inclusion gap.

Data, Strategy, Regulations and Stakeholders at the forefront

More than 1 in 3 Nigerian adults are financially excluded – with no access to useful, relevant, and affordable formal financial services such as payment, savings, and credit. Of the 106 million adult Nigerians in 2020, 44.8% were banked, while 5.7% and 13.6% were served by other formal channels and informal financial service providers such as *ajo*, *esusu* (this is the current reality of Nigeria's financial inclusion campaign, 10 years after the big push for financial inclusion began in 2012).

Let's go back to memory lane. In 2010, EFInA's maiden financial inclusion survey revealed that 36% and 54% of Nigeria's adult population were formally included and financially served respectively.

Fast forward to 2012, following EFInA's stark revelations and consultations with the World Bank Group, Nigeria developed a National Financial Inclusion Strategy – to guide the collective effort of market operators seeking to make access to finance more inclusive.

How much has financial exclusion shrunk over the last decade? **10.4%.**

This is over a decade after the big push for financial inclusion: various capital raising rounds (over \$600 million raised over this period) by 250+ Fintech, issuance of mobile

money, payment service bank licenses, and supporting initiatives such as SANEF, digital IDs.

When you look more closely at the data, you begin to see that it would take about 40 years to reach a 10% financial exclusion rate – given the average reduction in the last decade. During this big push, Nigeria recorded a peak in financial inclusion between 2010 and 2014. An additional 12% of adult Nigerians had access to financial services. This was followed by a stagnant financial inclusion performance between 2014 and 2018 at about 48.6%.

Despite the struggle to close the financial inclusion gap, financial services providers including fintech, banks, and insurance companies saw the pool of excluded persons as an opportunity. Banks reduced the table stakes to owning a checking/current account, leverage credit scoring models, and offering micro/nano loans to new bank customers with no credit history.

FinTechs are leveraging alternative data to have a fresh view into the financial health of users offer better returns on savings, access to short-tenured loans, and investible assets with funds as low as N100 (less than 20 cents). Insurance firms offer micro-insurance plans and leverage digital channels.

Concerns associated with advancement in financial inclusion

Over the last decade and as the push for financial inclusion increases, there is a tendency to come across questions such as:

Are existing fintech business models and products suitable and sustainable for the unbanked?

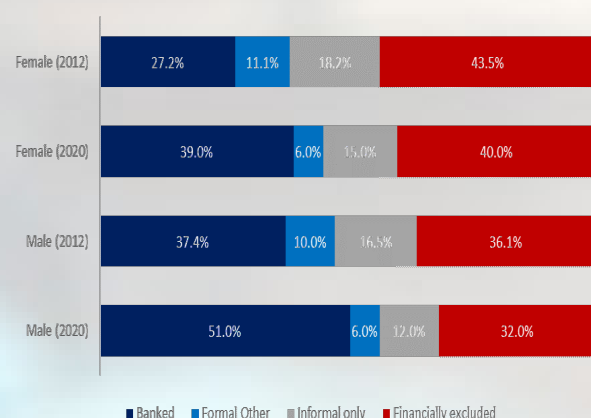
Why is Nigeria's inclusion rate low despite numerous CCT/G2P programs?

At what inclusion rate do we give in as efforts yield diminishing returns?

Who should lead the charge across the different facets of inclusion?

Well, do not fret. Answers to these questions are key, if the NFIS targets will be met.

Gender comparison (2012 vs 2020)



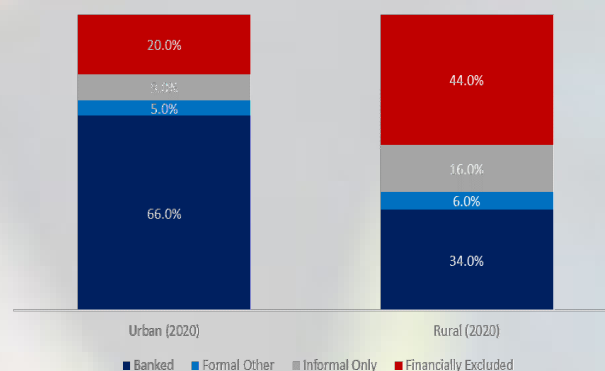
Another concern is the disproportionate progress recorded. Research shows that rural communities and women are the least impacted by financial inclusion programs.

To begin with, gender gaps still exist with access to financial services, more in favor of men. In 2020, 21.3 million adult women, representing 20% of Nigeria's adult population compared to 17 million men, are yet to be included in the financial system.

Next, of the 69.7 adult Nigerians in rural areas, 44% are exempted from the financial system, while 16% access finance through informal channels. This shows that the presence of financial services access points

is skewed to the largest and most populated areas, while the most peripheral areas lag.

Rural vs Urban area (2020)



Whilst being consistent with the lags and challenges, it appears that the NFIS, FinTechs and current available financial services have their shortcomings to the group of people they claim to provide financial access. The NFIS may need to be revamped to capture the current realities and strategies to navigate through the noise.

"The incentives to use financial products that has helped speed up financial inclusion in urban areas must be replicated in rural areas and integrated in lives of rural dwellers."

Start with customer acquisition

The first step is to ensure the financially excluded have access to transaction accounts to store money, send and receive payments.

The account/wallet for transactions is expected to catalyse access to other financial services. When basic financial inclusion is achieved, market operators can work to ensure that the excluded transition from owning wallets/account to account usage – possibly, the most difficult facet of financial inclusion.

For next steps, learn from comparable countries

To fully grasp the performance of Nigeria's Financial Inclusion Strategy, 5 countries with similar financial inclusion rates to Nigeria's were evaluated. This comprises Ghana (West Africa), Mexico (North America), Columbia (South America), Rwanda (East Africa), and Jordan (Asia).

1. Ghana

Ghana's financial inclusion rate stood at 29.4% in 2011. To fix this, various technology driven initiatives were deployed and championed by government, banks, and mobile money operators. These initiatives trickled down to support informal services which a third of the Ghanaian adult population participated in. By 2020, Ghana recorded a financial inclusion rate to 58%¹. Let us take a deep dive into what happened in-between.

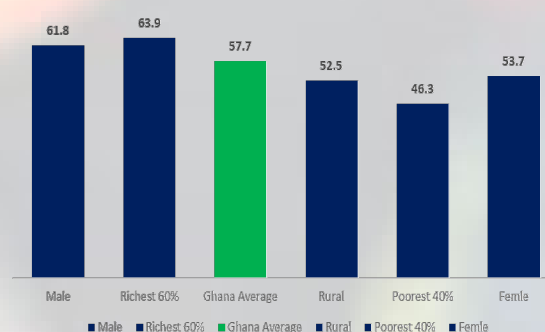
The Government of Ghana (GOG) initiated biometric national ID initiative across the country.

Digital IDs helped to curb one of the limitations to opening an account (valid means of ID). In the same vein, the GOG has initiated digital tax collection initiatives from small players as well as digital utility payments.

It is credible to note the grass root efforts that have led to this improved inclusion rate. One of which is **the integration of digital channels into the activities of rural dwellers and informal financial service providers** as seen in the adoption of mobile money into the village Savings and Loan Association (VSLA) business model.

¹ Restated 2018 figures as 2020 survey is yet to be completed

Access ownership across population group (in %)



In Ghana, Telcos have greater grassroots access than banks and have led the drive to increase the number of agent banking access points in the country. For example, Ghana's MTN mobile money business registered \$216.4 million revenue from MoMo transactions in 2020, more than the revenue earned from digital channels of the largest banks in Nigeria within the same period.

Despite the increase in overall access to financial services, Ghana's financial inclusion journey has a commonality with Nigeria's – The gender gap. **Data indicates that Ghanaian women are still less financially included than men.**

Some of the recommendations by the World Bank being implemented in Ghanaian government include enforcement of digital payments for government and utility bills, promotion of agent banking and other low-cost models to increase the footprint, financial literacy programs, and the introduction of policies and frameworks to encourage data sharing.

2. Colombia & Mexico

Mexico and Colombia **both experienced economic and financial crises in the 1990s** leading to severe recession, poverty, and unemployment. To combat this, World

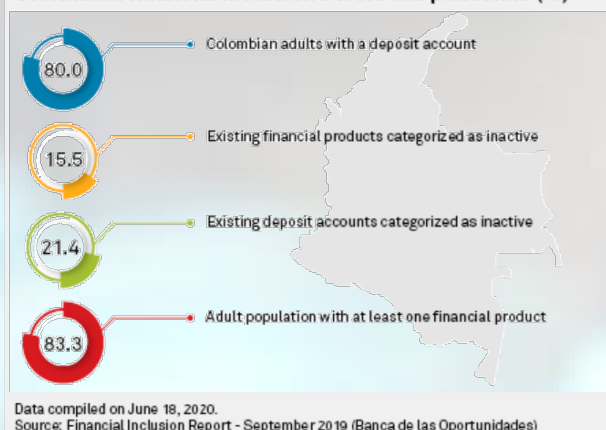
Bank partnered with these countries to issue conditional cash payments to alleviate the masses from poverty. These payments are still ongoing and have contributed to a better standard of living among the poor.

In 2011, financial inclusion levels for Mexico and Colombia were 27% and 30% respectively. Through the years, both countries have led public policy and consumer protection activities for financial inclusion across Inter-American countries.

During the COVID-19 pandemic, more Colombians opened their first bank accounts than in all of 2019 leading to an estimated 80% inclusion level by the end of 2020.

Also, with no apparent gender gap, women access is almost at par with male access to financial services.

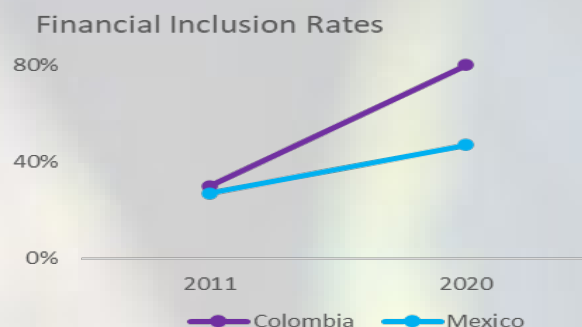
Colombian financial inclusion before the pandemic (%)



Initiatives introduced to achieve these inclusion levels include:

- Distribution of welfare payments to bank accounts
- Collaboration between the public sector, banks, and FinTechs, leading to the inclusion of 2 million adults between March to June 2020
- Formal adoption of financial inclusion laws aimed at increasing the number of operators

Mexico's financial inclusion rate of 47% is far from that of Colombia. Apart from digitizing welfare payments and the development of financial infrastructure in underserved areas (agency banking), a major initiative implemented by Colombia yet to be implemented by Mexico is the reforming of laws to encourage informal merchants.



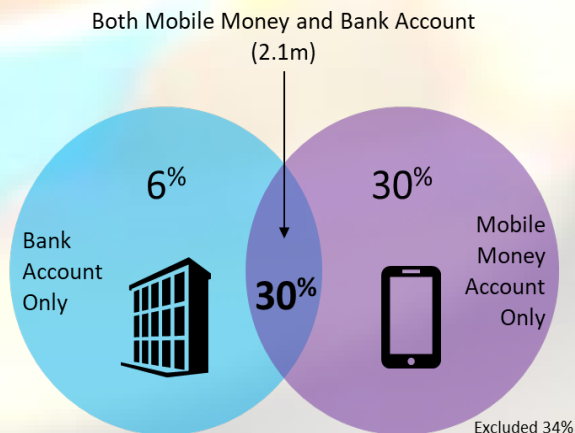
3. Rwanda

Rwanda recorded a high **66% financial inclusion rate in 2020**, doubling its 2011 figures of 33% - where 1 in 4 Rwandans used mobile money services. However, a **10% inclusion gap** exists between females and males.

Financial Inclusion breakdown by accounts



This impressive rate is attributed to the policy and regulatory environment (Payment Systems Law) which ensures that there is a level playing field for both banks and non-banks.



In addition, Rwanda digitized health insurance and premium collections, with an option to pay via mobile money - close to 90% of Rwandans have access to health insurance under the government social health insurance scheme.

4. Jordan

Jordan's financial inclusion rate improved by 17% to 50% in 2020 within three years. During this period, the gender gap declined to 29% from 53%.

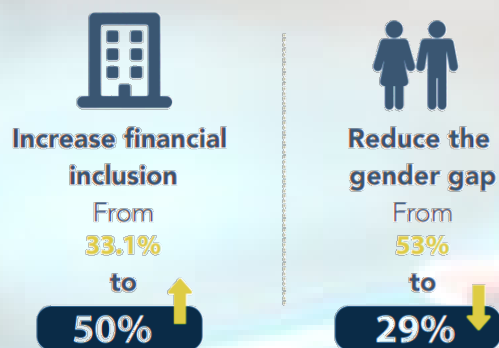


Figure (1): Financial Inclusion Achievements in Jordan

The Central Bank of Jordan (CBJ) is the primary driver of financial inclusion. The apex bank developed a framework to achieve its NFIS on pillars such as SME Finance, Microfinance, and Digital Financial Services across four cross-cutting enablers.

Enabler 1: Laws, Regulations, Instructions

Two key activities performed:

- CBJ obligated all banks to open Basic Bank Accounts – **low-cost accounts available to exclude individuals who are willing to deal with banks within limits and costs that suit their income and abilities.**
- CBJ issued a circular to all mobile Payment Service Providers to **open merchant wallets for unlicensed small merchants and home-based businesses**

Enabler 2: Financial Consumer Protection

Two key activities performed:

- CBJ issued instructions to banks to ensure **PWDs (Persons with disabilities) have unrestricted access to banking and financial services**
- CBJ through the Financial Consumer Protection Department launched a **Financial Literacy Campaign aimed at undergraduates of selected universities** as a first step towards promoting financial literacy

Enabler 3: Financial Capabilities

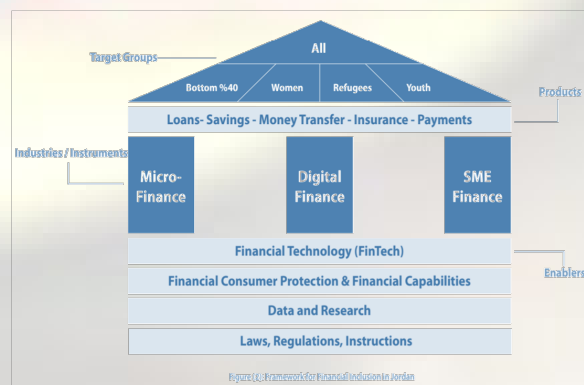
Two key activities performed:

- **Financial education curriculum in schools** was prepared and launched in collaboration with the Ministry of Education and INJAZ (a youth-centered not-for-profit)
- **Women-focused training workshops** have been organised by CBJ in collaboration with its partners

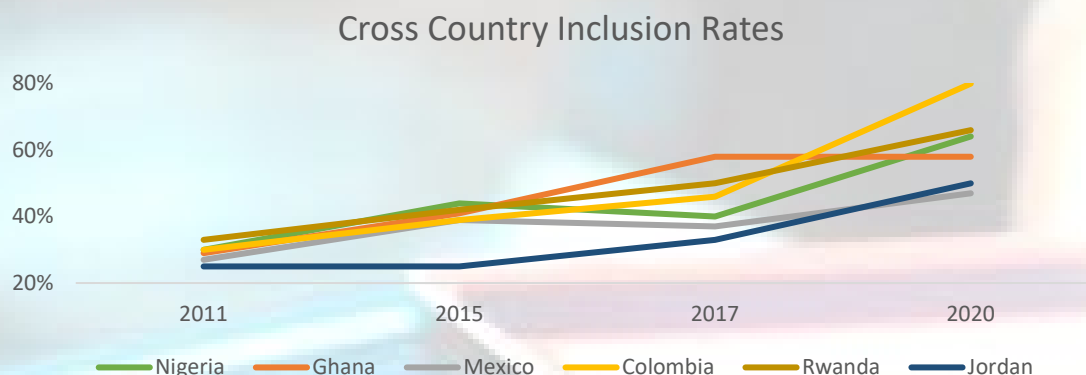
Enabler 4: Data and Research

One key activity to be performed:

- CBJ is working on developing an **Electronic Data Platform** to facilitate and improve the process of data collection, analysis, and reporting in CBJ



1. **Introduced a FinTech Regulatory Sandbox** to keep pace with rapid developments to provide a conducive environment which promotes innovation and financial inclusion
2. **Improved access to remittances and other Financial Services** through the development of the national Digital Financial Service (DFS) ecosystem, enhancing the regulatory and supervisory framework for DFS as well as increasing awareness literacy about digital financial services
3. **Introduced Mobile Money for Resilience Initiative (MM4R)** in partnership with Bill and Melinda Gates Foundation to improve the quality of life of Jordanians and refugees impacted by the Syrian crisis



In addition to the activities of the enablers, Jordan performed the following Financial Inclusion Initiatives:

CLOSING THE GAP: ACTIONABLE RECOMMENDATIONS FOR FINANCIAL SECTOR STAKEHOLDERS

When we know the status quo of Nigeria's financial inclusion journey, we pay better attention to the leaking faucets and seek ways to get better.

This article does not assume that the recommendations below are exhaustive for advancing financial inclusion, however, the five (5) actionable steps below can make an important contribution toward this goal.

1. Introduce regulations aimed at enforcing low-cost retail accounts in Tier 1 banks

To boost inclusion numbers, there must be defined laws encouraging an inclusive ecosystem. One is the enforcement of Tier 1 Banks (having lower cost to income ratios and a larger number of branch and agent operations than other banks) is to utilise their resources towards creating low-cost retail accounts and target the financially excluded.

This will capitalize on the level of trust and brand recognition existing between the banks and individuals and can be extended to Tier 2 banks subsequently to reach more individuals.

To achieve this, CBN must create a policy on this initiative as well as regulate and recognise banks that achieve and surpass their targets. This regulation would see banks partnering with small scale merchants to achieve their targets thereby creating an enabling environment for these merchants.

2. Integrate digital channels into Village Savings and Loans Associations (VSLAs)

With only 18% of MSME funding coming from commercial banks, there is a huge funding gap that is covered by personal savings and loans from family, friends as well as co-operatives, and associations which is more predominant in rural areas where there is little to no access to formal financial services. The transactions in these locations are predominantly cash-based and could be used as a gateway to enable members to be formally served.

Through "Recommendation 1", the regulation will encourage Top Banks to interact with small-scale merchants across these locations. These small-scale merchants are aware of and have access to the VSLAs in their locality making it easy to train rural dwellers and link their VSLAs to digital banking channels.

3. Approach mobile money differently to share the cost and spoils

Create a consortium comprising Telcos, Fintechs, and incumbent banks. Secure an MMO license from the CBN, leveraging the non-bank-led model. This model helps to achieve cost-sharing and ensures that the consumer market is not spread thin. The benefits for partners are considered sizeable.

For Telcos, this model will potentially unlock network effects (the more it is used, the more people get to use it as users turn advocates) i.e. dominant quasi-monopoly position. Partner cum settlement banks earn interest income on deposited funds and microloans delivered to newly minted financially included persons.

To achieve this, a robust and fluid private-public partnership is required. The CBN must starve off possible opposition from incumbent bank and set out to ensure macroeconomic stability and a sustainable pricing regime – that makes commercial sense to operators and attracts the target market.

4. Firm up digital for P2G and G2P payments and embrace DeFi

Digitise P2G and G2P payments to unlock significant benefits for stakeholders including government, financial sector operators, and individuals/SMEs. Digital helps to reduce cost, block leakages and improves transparency. For financial operators, digital means gradual accretion of value to NTB and ETB customer segments. For individuals and SMEs, it is convenience, speed, and improved trust owing to a more transparent payment system (all things being equal).

DeFi is the future. CBN should embrace DeFi by working closely with fintech innovators working on blockchain related projects.

5. Introduce financial literacy programs

A third of Nigerians have low financial capability, less than 30% of adult

Nigerians have or use products or services from non-bank formal financial institutions, and 78% (13.2 million) Nigerians aged 15-17 are financially excluded. Hence, a good understanding of finance/ money management should be table stakes in secondary and tertiary institutions, to ensure that teens have a healthy financial life as they transition to adults.

To address this, private and public sector stakeholders in the education sector should update the curriculum of secondary and tertiary institutions – such that students are better equipped to understand the nuances of finance and digital. The deployment of financial management training using a blended approach (classrooms and feature phones) will likely be key to ensure that those aged 15 -17, who are financially excluded, become financially included.

SUMMARY

Over the past 10 years, Nigeria witnessed growth in its financial inclusion numbers from 30% (2010) to 45% (2020). This figure is less than perfect as it is clear that Nigeria needs to do more to meet up with countries like Ghana, Mexico, Columbia, Rwanda, and Jordan.

Moving forward, Nigeria should consider our recommendations. It is no secret that micro enterprises contribute to above 90% of activities in Nigeria and cash is the predominant method of transaction. Financial inclusion, all things being equal should lead to a larger GDP value and well-being of Nigerians.

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Source:

World Bank Group, EInA, Hootsuite, IUPANA, S&P Global, IADB, Centre for Financial Inclusion, FinScope Rwanda, Finclusion, Central Bank of Jordan, KPMG Research