

## EFInA Financial Inclusion Conference

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**Assessing the impact of financial inclusion policies on deepening financial inclusion in Nigeria: Supply side perspectives**

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- A. Background**
- B. Research objectives and methodology**
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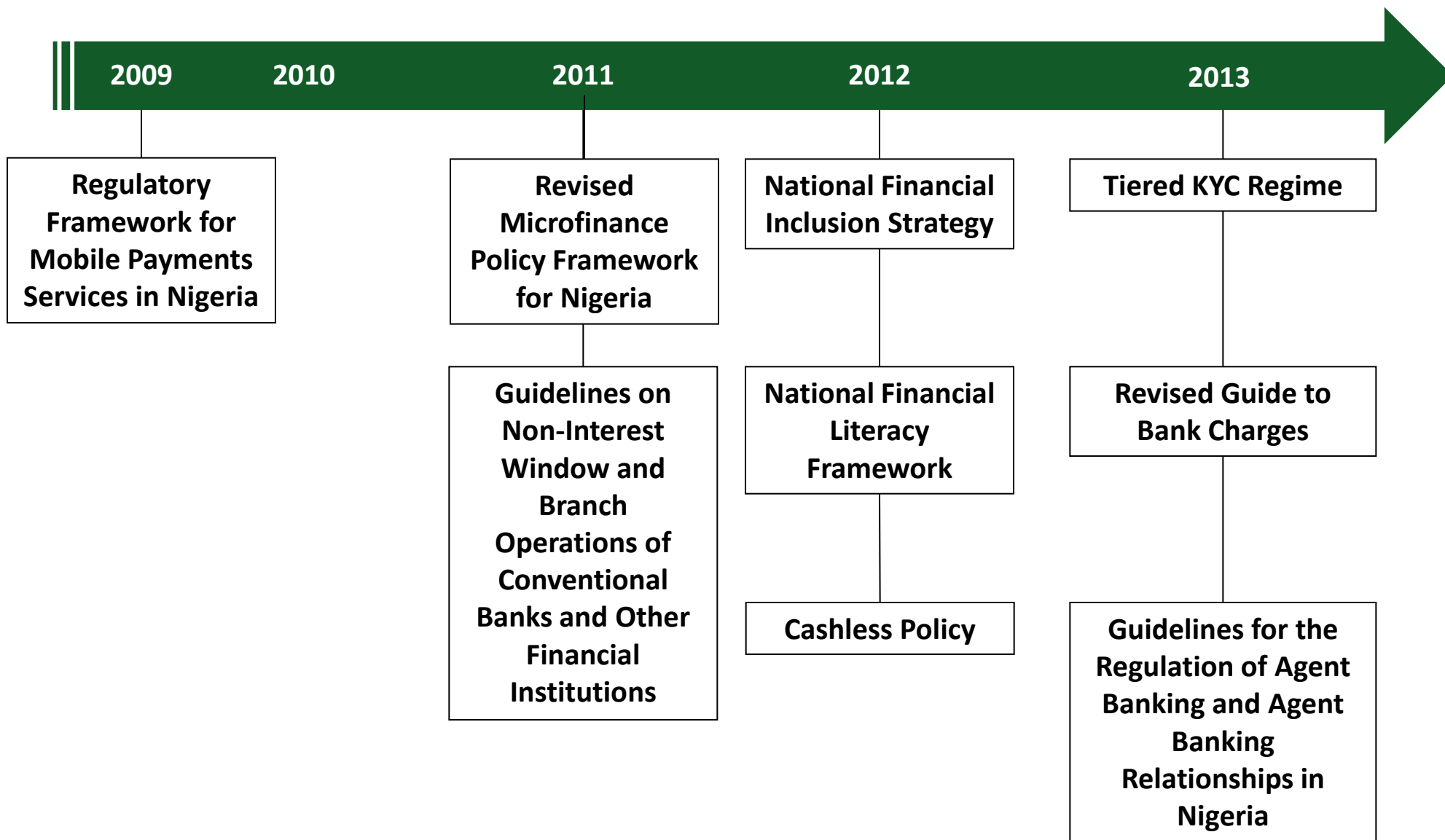
## **A. Background**

In July 2014, EFInA (as part of our advocacy work) commissioned Dalberg Global Development Advisors to undertake an impact assessment of 9 key financial inclusion policies on deepening financial inclusion in Nigeria. EFInA was seeking to explore the following issues:

- **Impact:** assess the impact of the relevant policies/regulations on deepening financial inclusion
- **Awareness and implementation:** assess the level of awareness and implementation of the relevant policies/regulations amongst the organisations interviewed
- **Experience with policies:** assess the experience of the organisation with the various policies/regulations it has implemented
- **Internal challenges:** what challenges the organisation faced, in trying to implement these policies/regulations
- **Financial Inclusion strategy:** is financial inclusion a priority within the organisation? Is there a strategy for attracting the unbanked and under-banked?

## **B. Research objectives and methodology**

# The study aimed to understand the impact of the financial inclusion policies on the supply of financial services



# The study assessed the effect of the nine policies on deepening financial inclusion among supply-side actors

## **Total of 53 interviews:**

- Face-to-face and over the phone

## **Broad mix of stakeholders:**

- Direct service providers: DMBs, MFBs, MMOs, Card Issuance Companies
- Providers of enabling services: MNOs, ANAs, Switch
- Stakeholders in enabling environment: Industry Associations, Regulators

## **Focused on 2 elements:**

- Their own strategy for and focus on financial inclusion
- Their experience with the policies that are relevant for them (awareness, satisfaction, challenges)

# Mapping of financial inclusion policies' relevance across stakeholder groups

	Deposit Money Banks	Microfinance Banks	Agent Network Aggregators	Mobile Money Operators	Mobile Network Operators	Switch (Nigeria Inter-Bank Settlement System, NIBSS)	Card Issuance Companies	Industry Associations
National Financial Inclusion Strategy (2012)	+	+	+	+	+	+	+	+
Revised Microfinance Policy Framework (2011)		+						+
Regulatory Framework for Mobile Payments Services (2009)	+	+	+	+	+	+		+
Guidelines on Non-interest Window and Branch Operations of Conventional Banks and Other Financial Institutions (2010)	+	+						+
Cashless Policy (2012)/POS Guidelines (2011)	+	+	+	+		+	+	+
Tiered KYC Regime (2013)	+	+		+	+			+
Revised Guide to Bank Charges (2013)	+	+				+	+	+
National Financial Literacy Framework (2012)	+	+						+
Guidelines for the Regulation of Agent Banking and Agent Banking Relations (2013)	+	+	+	+	+	+		+



## **C. Summary of research findings**

### **Good news – policies have been helpful and set changes in motion:**

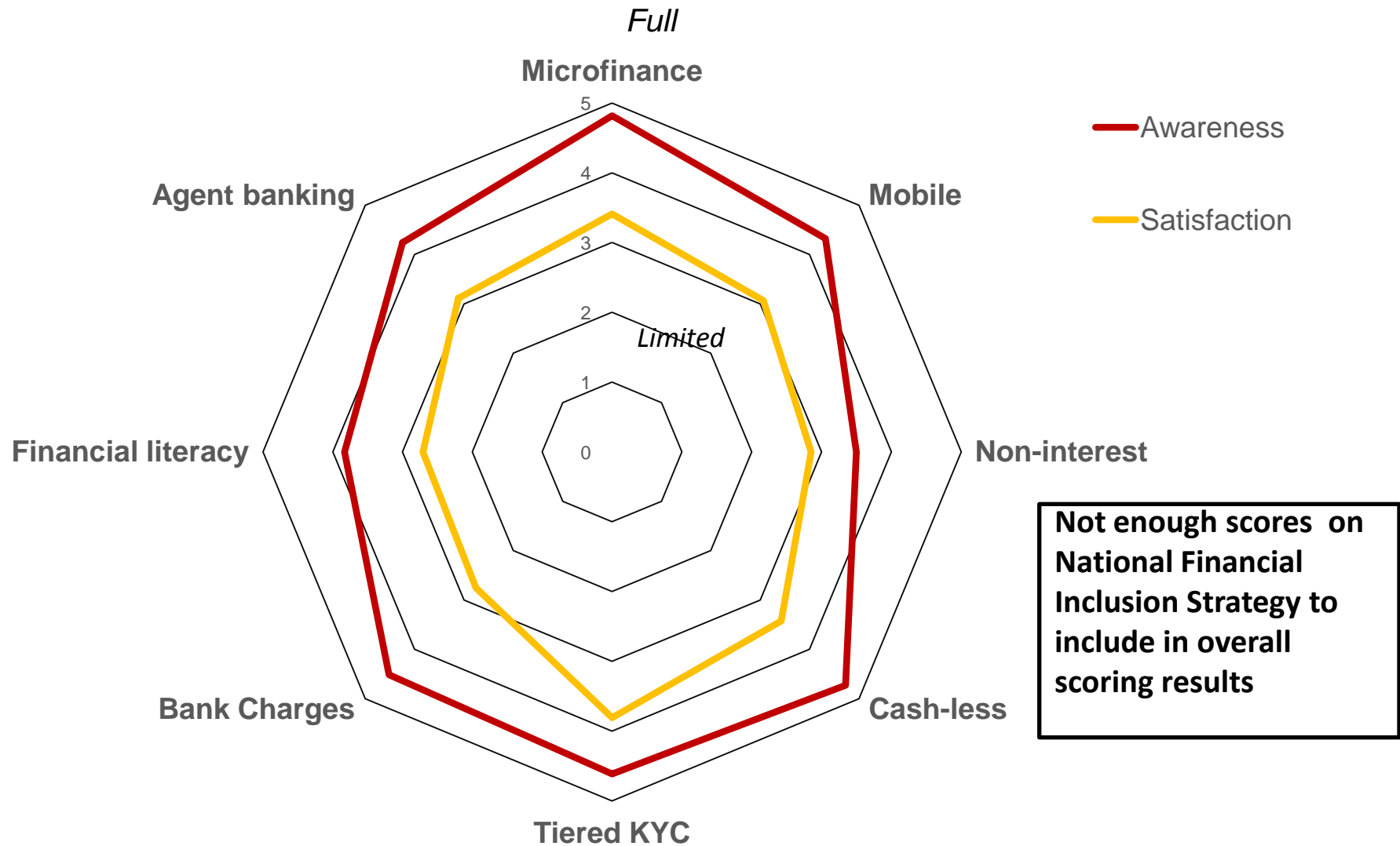
- Conducive enabling environment created
- New offerings and volume growth realised with the unbanked and under-banked
- CBN generally seen to be responsive and collaborative in policy development, but less so by MFBs

### **Further challenges exist to spur financial inclusion**

- Infrastructural challenges continue to feed distrust and hamper implementation and uptake
- Policies and government behaviour are seen to be inconsistent
- Certain detailed and stakeholder-specific issues exist, particularly in non-interest banking
- Large number of policies and frequent revisions hard to digest

# Summary of Awareness/Level of Satisfaction

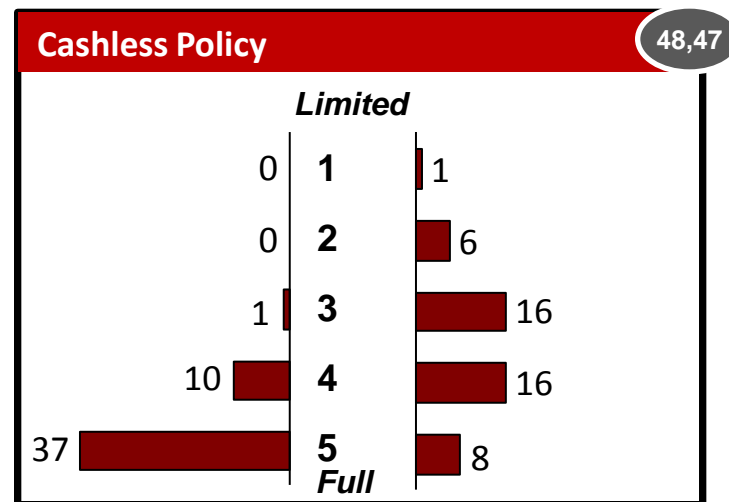
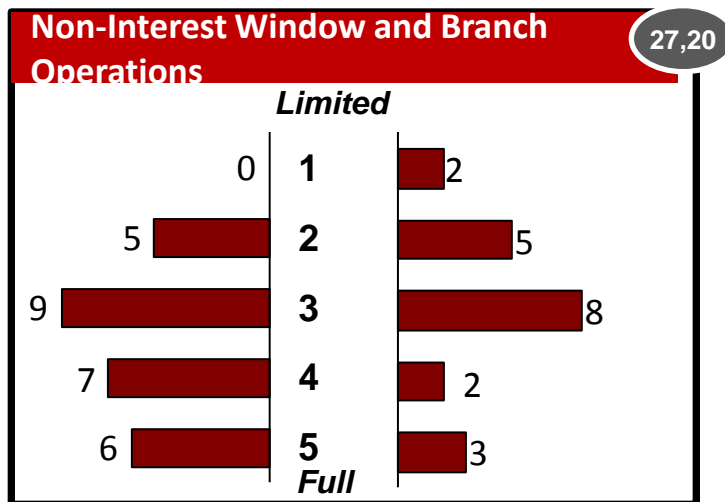
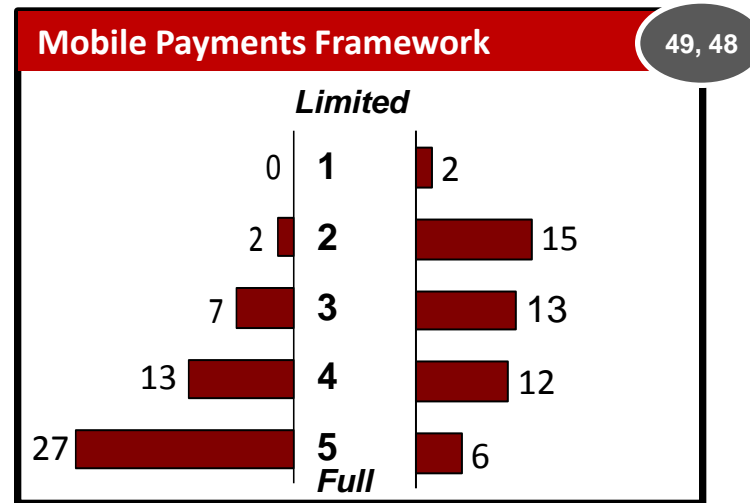
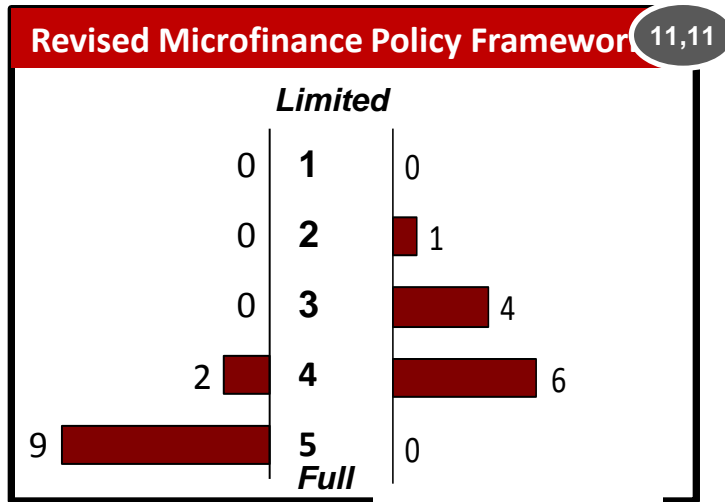
- Across the policies and across stakeholder groups, awareness tends to be much higher than satisfaction



# Awareness/Level of Satisfaction by Respondents (1/2)

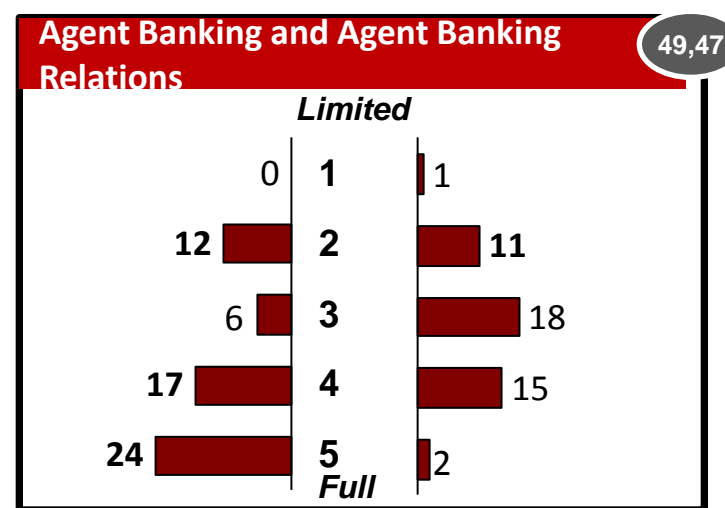
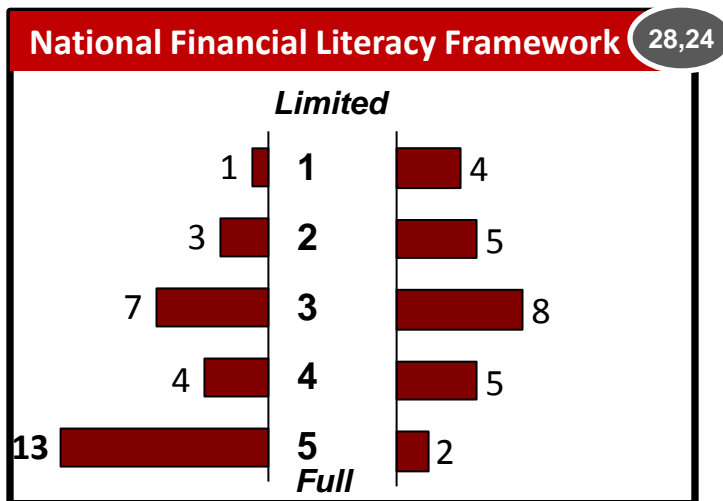
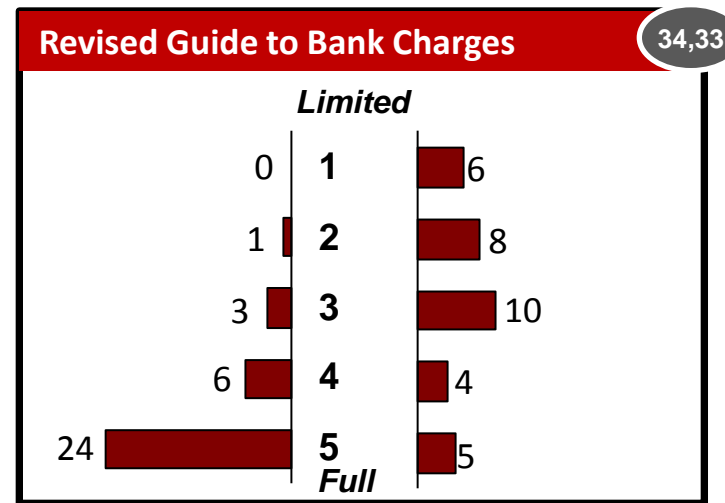
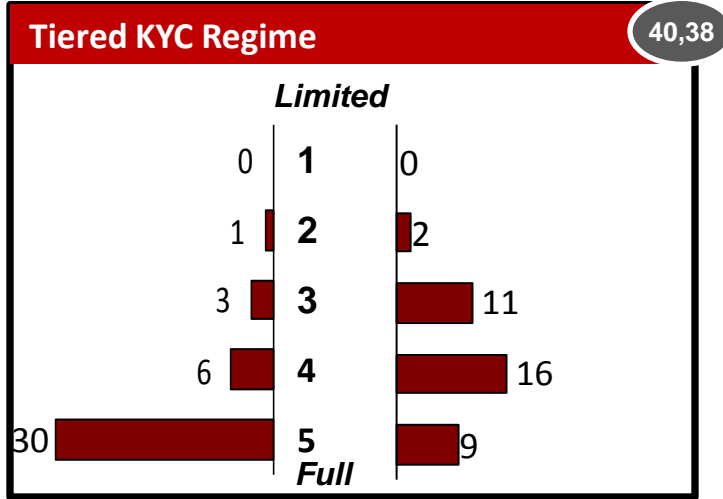
- Across policies, stakeholders are generally knowledgeable, but raise concerns on detail and implementation

● Number of respondents    Awareness on the left, Satisfaction on the right



# Awareness/Level of Satisfaction by Respondents (2/2)

Number of respondents Awareness on the left, Satisfaction on the right



## Detailed Findings Per Policy (1/4)

- Generally indicate potential for improvement

### National Financial Inclusion Strategy

- Few interviewees were able to score – many had no opinion
- Agreement that the Strategy is good in theory, but implementation leaves much to be desired:
  - Lack of rural focus
  - Lack of focus on necessary enabling elements, such as infrastructure
- Provide an opportunity to strengthen alignment with FI focus with other department and ministries
- Strong relationship between the value interviewees ascribed to the Strategy and the strategic focus on FI in the interviewee's organisation

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### National Financial Literacy Framework

- Consensus that focus is not sufficiently on rural areas and mass markets truly needing financial literacy – implementation needs “to be taken to the streets”
- Lack of clarity on real owners and funders of the framework
- Mixed views on the “moral” role of banks in financial literacy, largely reflective of the strategic focus on financial inclusion of the interviewee's organisation

### Revised Microfinance Policy Framework

#### Mixed reviews on capital requirements:

- Some feel the requirements are too large – particularly that the step from State to National is too big; they plead for an intermediate Region level
- Some feel the requirements are not large enough, risking viability of certain MFBs, particularly the Unit ones

#### Too many regulations are ‘copied’ from DMBs but pose too many constraints for and/ or are not useful or relevant to MFBs:

- Prudential guidelines for non-performing loans and portfolio at risk are at odds with the realities of microfinance loans
- Regulatory requirements for staff capacity and expertise adversely impact costs, make hiring difficult and may not help to run the MFB
- Limit of investments in fixed assets makes it hard for microfinance banks to put the right infrastructure in place

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### Tiered KYC Regime

- Broad support and satisfaction
- Tier 2 seen as not distinct enough from tier 3 and hardly used
- Mixed views on suitability of daily and per-transaction limits, with some feeling they’re too low for certain professions/ profiles

## Detailed Findings Per Policy (3/4)

### Regulatory Framework for Mobile Payment Systems

- Mixed views on whether not allowing telco-led models is the right choice, with interviewee opinions predictably aligning with their interests
- Agreement that uptake is low, largely driven by low consumer trust, which is impacted by factors outside of control of supply-side actors:
  - Infrastructure challenges
  - Limited awareness and cash-based consumer mind-set
  - Suboptimal agent network

### Cashless Policy and Guidelines of POS and Card Acceptance Services

- Most challenges observed in implementation
- Only complaint about the policy is that the POS transaction fee of 1.25% is too high
- Mixed reviews on staggered roll-out of the policy
- ATMs and POS transactions seen to be over-promoted, at the expense of other cashless channels and services
- Strong behavioural components:
  - Low literacy levels and awareness



### Revised Guide to Bank Charges

#### Broadly shared criticisms:

- Charges seen as either too low (impacting profitability) or too rigid (stifling innovation in product offering and pricing)
- Frequent changes difficult to cope with and seen as inconsistent

### Guidelines for the Regulation of Agent Banking and Agent Banking Relations

- Mixed review on non-exclusivity, with slight majority view that non-exclusivity does not favour first movers
- Deep concerns on high agent turnover and high percentage of dormant agents, which indicates being an agent is not an attractive enough proposition
- Criticism on the rigid requirements, which exclude many locally trusted agents

### Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions

- Lowest average awareness scores and greatest variation in satisfaction
- Substantial challenges by bank most focused on this as they perceive that there is a lack of a level playing field (CBN liquidity management, NIRSAL and other facilities not open to them, due to the products being interest-bearing)

## **D. Key recommendations**

# Key Recommendations

- CBN can directly support overcoming some of the issues identified

**Tightly enforce compliance, particularly in digital payments by government actors**

- **Enforce compliance of current policies** to make the most of existing policies without requiring changes (as stakeholders indicate it's a challenge to keep up with changes)
- Focus enforcement of compliance on government digital payments on salaries, pensions, supplies and taxes to ensure government acts as a role model

**Provide expert advice and input to other stakeholders**

- **Share expert insights and experiences** with other stakeholders, (especially other regulators) to support them in taking up their role

**Ensure policy consistency, within financial policies and across areas**

- **Coordinate closely across departments** to ensure information on policy (in)consistency is available and acted upon. This should be done for:
  - Financial policies and relevant tangential policies
  - CBN stakeholders and other stakeholders (from Ministries & other sectors)

**Consider policy adjustment to include more mandatory measures**

- Deeply understand the possibilities and implications of policies that are more mandating rather than using moral suasion
- Work closely with relevant stakeholders to adapt policies

**THANK YOU**