

EFInA Financial Inclusion Conference

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

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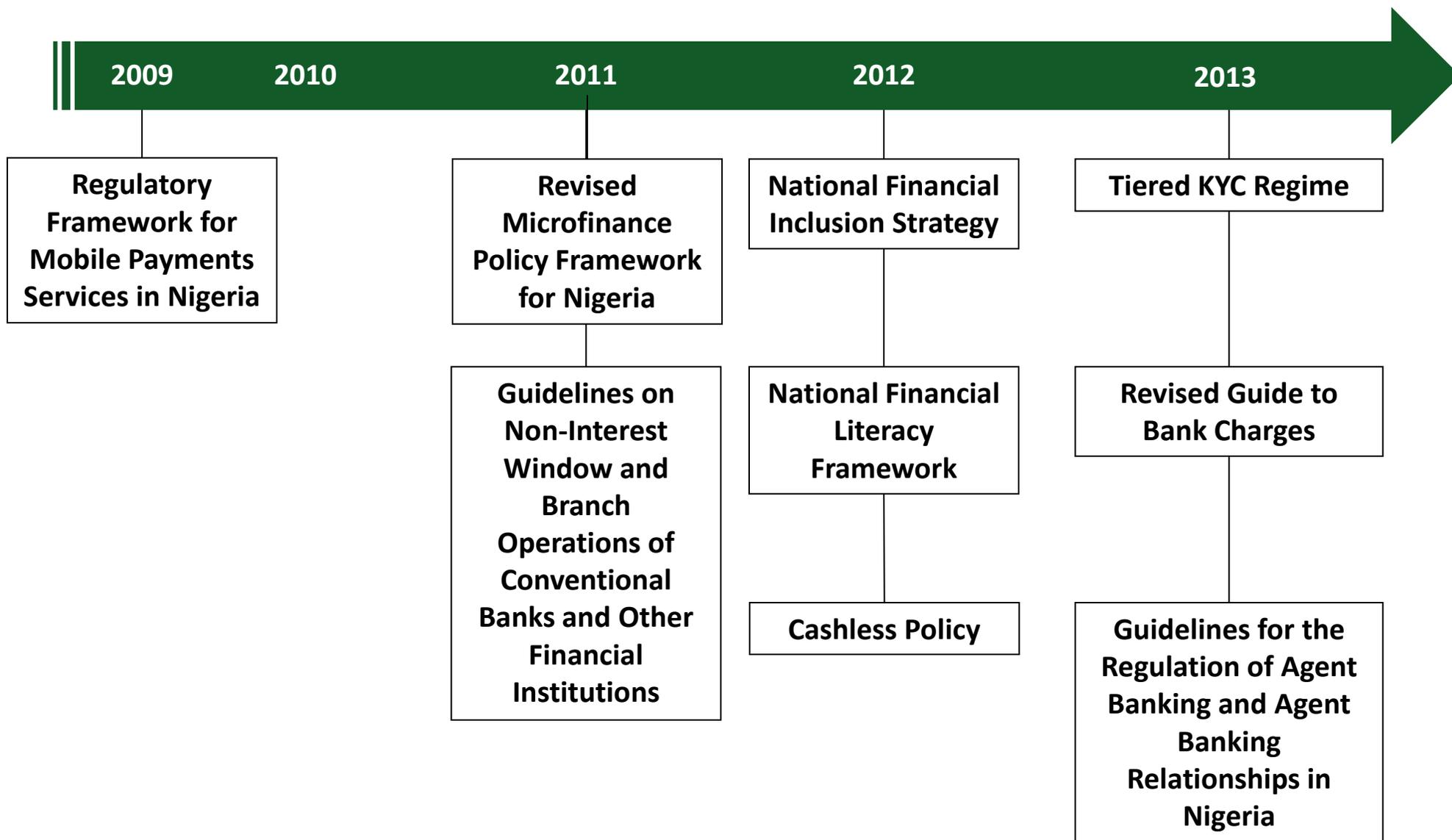
A. Background

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:

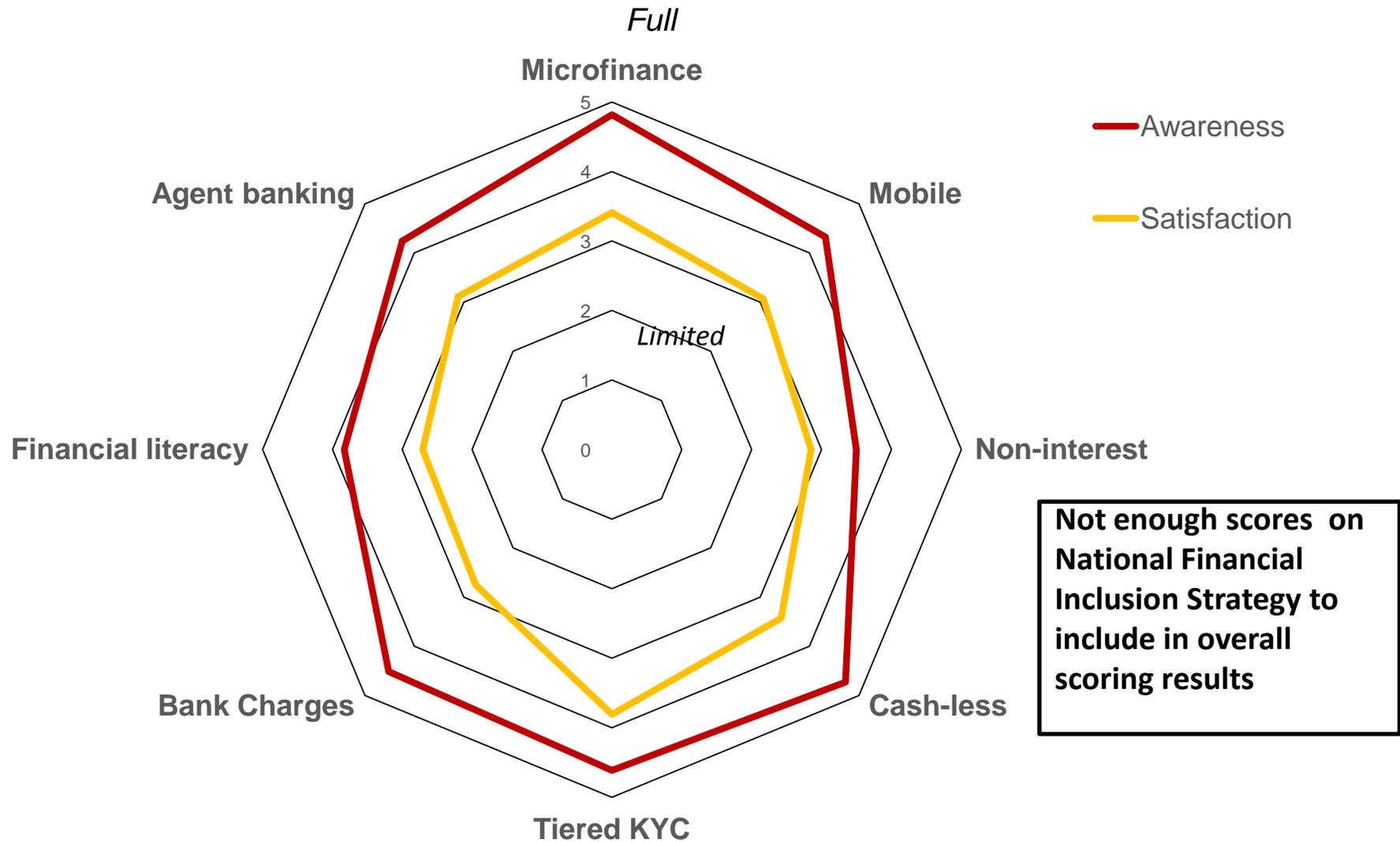
- Conducive enabling environment created
- New offerings and volume growth realised with the unbanked and under-banked
- CBN generally seen to be responsive and collaborative in policy development, but less so by MFBs

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

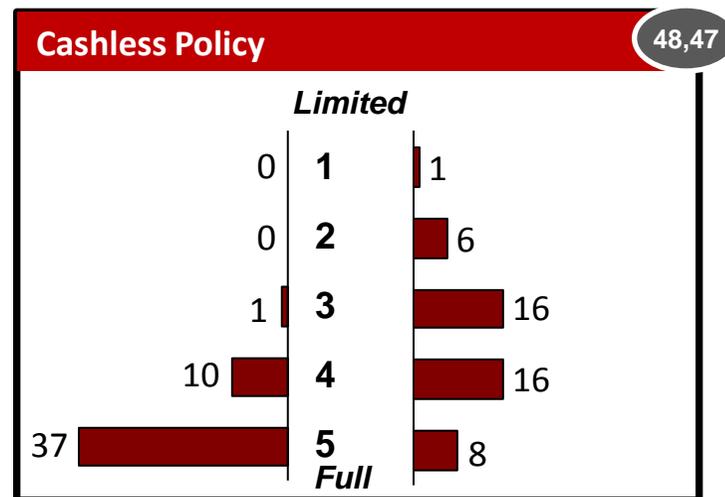
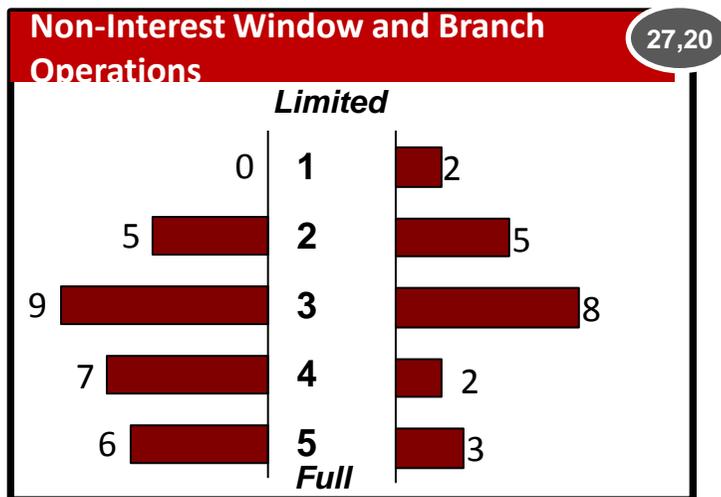
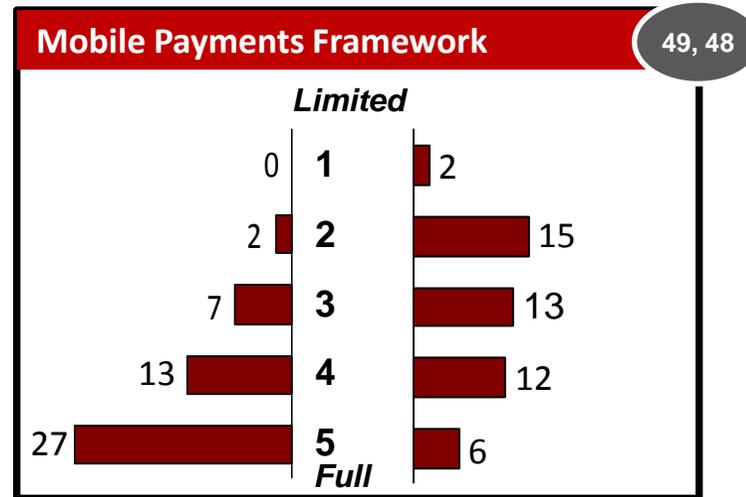
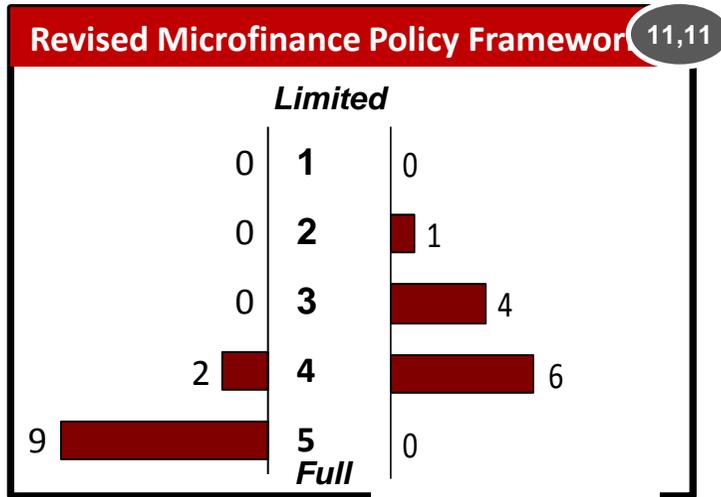
- Across the policies and across stakeholder groups, awareness tends to be much higher than satisfaction



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

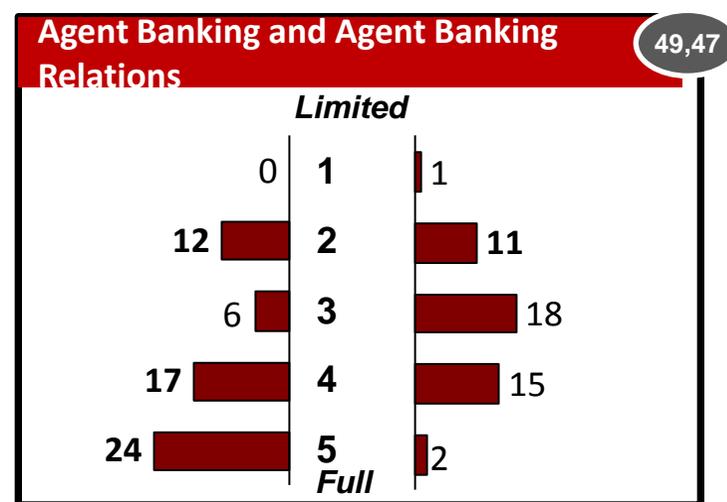
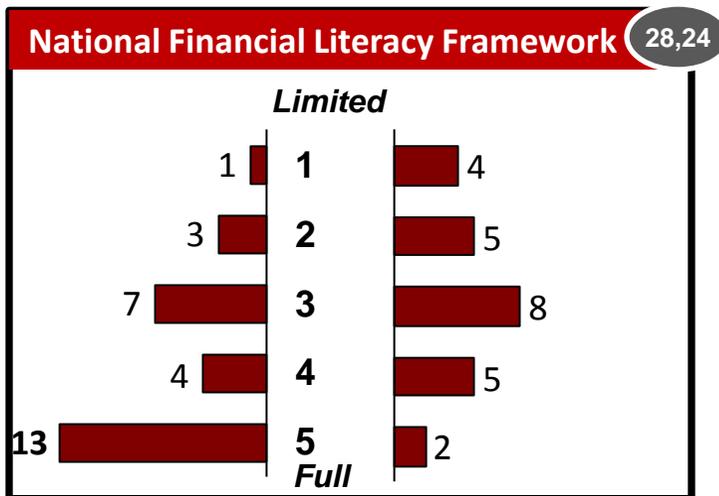
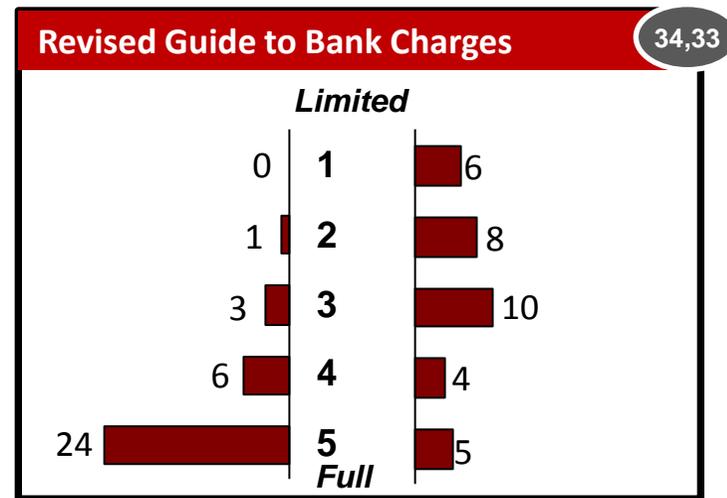
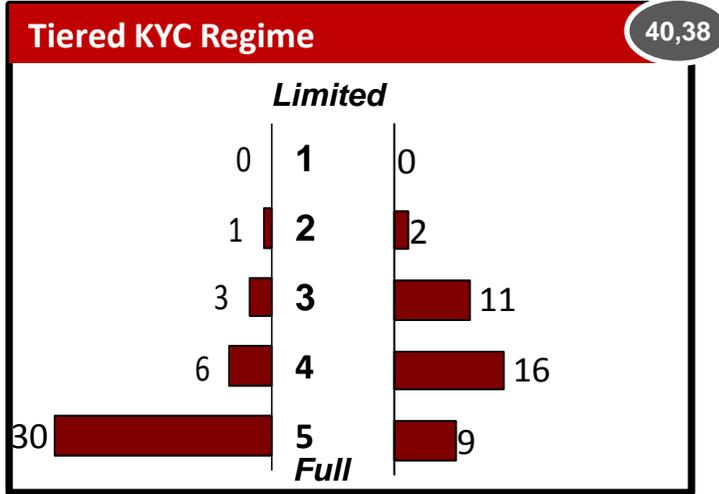
- Across policies, stakeholders are generally knowledgeable, but raise concerns on detail and implementation

● 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

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

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