

# FINANCIAL SERVICES LANDSCAPE IN NIGERIA (SUPPLY SIDE STUDY)

Presentation to key stakeholders

Robert Stone  
10 August 2010

# Outline

---

1. The objective and methodology of the survey
2. The Nigerian economy
3. The demand side – access to finance
4. The supply side – institutions and regulation
5. Constraints to financial access
6. The supply side response
7. The landscape of access
8. Windows of opportunity
9. Conclusions

# Objective of the survey

---

The primary objective is to document Nigeria's financial infrastructure, to establish levels of financial access and usage from a supply perspective, and to provide the necessary context within which the levels and trends in access to these services can be evaluated.

The analysis aims to:

- identify possible barriers to access
- fill any information gaps relating to financial access highlighted by the EFINA survey findings and
- propose indicators by which expected improvements in levels of access to finance can be tracked over time

# Methodology

---

**Primary data:** quantitative and qualitative surveys.

Interviews were conducted with:

- 13 deposit money banks
- 5 microfinance banks
- 3 insurance companies
- 8 public institutions and associations
- 8 donors and research institutions
- 6 other relevant stakeholder

**Secondary data:** desk research and data analysis

- filling gaps in the information collected from the primary sources,
- background and context for the comprehensive analysis

**Testing the potential for rolling out services that are **accessible**, **affordable** and **appropriate** for the needs of low income people.**

# The Nigerian economy (I)

## Evolution of some economic indicators

	2 <sup>nd</sup> Qtr 07	3 <sup>rd</sup> Qtr 07	4 <sup>th</sup> Qtr 07	1 <sup>st</sup> Qtr 08	2 <sup>nd</sup> Qtr 08	3 <sup>rd</sup> Qtr 08	4 <sup>th</sup> Qtr 08	1 <sup>st</sup> Qtr 09	2 <sup>nd</sup> Qtr 09	3 <sup>rd</sup> Qtr 09	4 <sup>th</sup> Qtr 09	1 <sup>st</sup> Qtr 10
Gross Domestic Product (annual growth rate)	5.5	6.6	7.8	5.8	5.2	6.0	7.1	4.5	7.2	7.1	7.4	6.7
Oil share of GDP	18.7	18.6	18.0	21.6	16.7	16.9	15.7	18.7	16.0	15.5	14.7	17.6
Non-oil share of GDP	81.3	81.4	82.0	78.4	83.3	83.1	84.3	81.3	84.0	84.5	85.3	82.4
Inflation Rate	5.9	5.9	5.4	5.8	7.0	9.2	11.6	13.1	13.7	10.4	11.9	11.8
Interest rates (Max. lending rate)	18.7	18.2	18.2	18.1	17.9	18.1	19.7	22.2	22.8	22.8	23.1	23.1
Interest rates (Ave. term deposit rate)	8.97	8.99	8.69	9.35	10.7	11.0	11.6	12.2	11,8	12.3	11.7	9.44
<b>Credit to private sector (%)</b>	<b>14.8</b>	<b>20.6</b>	<b>21.5</b>	<b>18.1</b>	<b>13.6</b>	<b>10.4</b>	<b>7.9</b>	<b>2.1</b>	<b>4</b>	<b>14.7</b>	<b>3.5</b>	<b>-1.7</b>

The crisis has affected Nigeria somewhat **less** than many other oil producers: the decline in revenues has been less than in some other countries, the compression in real public expenditure has been more modest, thanks to the **new fiscal regime**.

## The Nigerian economy (II)

---

The profile of poverty is partly a feature of **high inequality**

	1985	1992	1996	2004
<b>National</b>	0.43	0.41	0.49	0.488
<b>Sector</b>				
Urban	0.49	0.38	0.52	0.544
<b>Rural</b>	0.36	0.42	0.47	0.519
<b>Geo-Political zone</b>				
South South	0.48	0.39	0.46	0.507
South East	0.44	0.40	0.39	0.449
South West	0.43	0.40	0.47	0.554
North Central	0.41	0.39	0.50	0.393
North East	0.39	0.40	0.49	0.469
North West	0.41	0.43	0.47	0.371

Source: NBS, 2004

Poverty is **multidimensional issue**: correlation of economic, political and socio-cultural inequalities, gender, location and ethnicity

# Outline

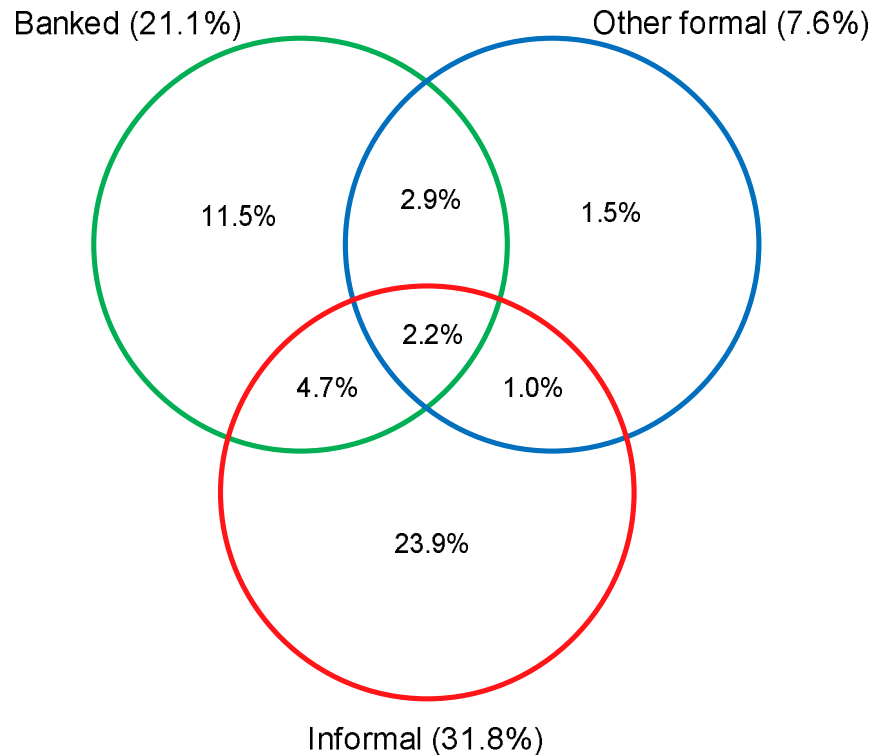
---

1. The objective and methodology of the survey
2. The Nigerian economy
3. The demand side – access to finance
4. The supply side – institutions and regulation
5. Constraints to financial access
6. The supply side response
7. The landscape of access
8. Windows of opportunity
9. Conclusions

# The demand side (I)

---

## Distribution of access to financial services

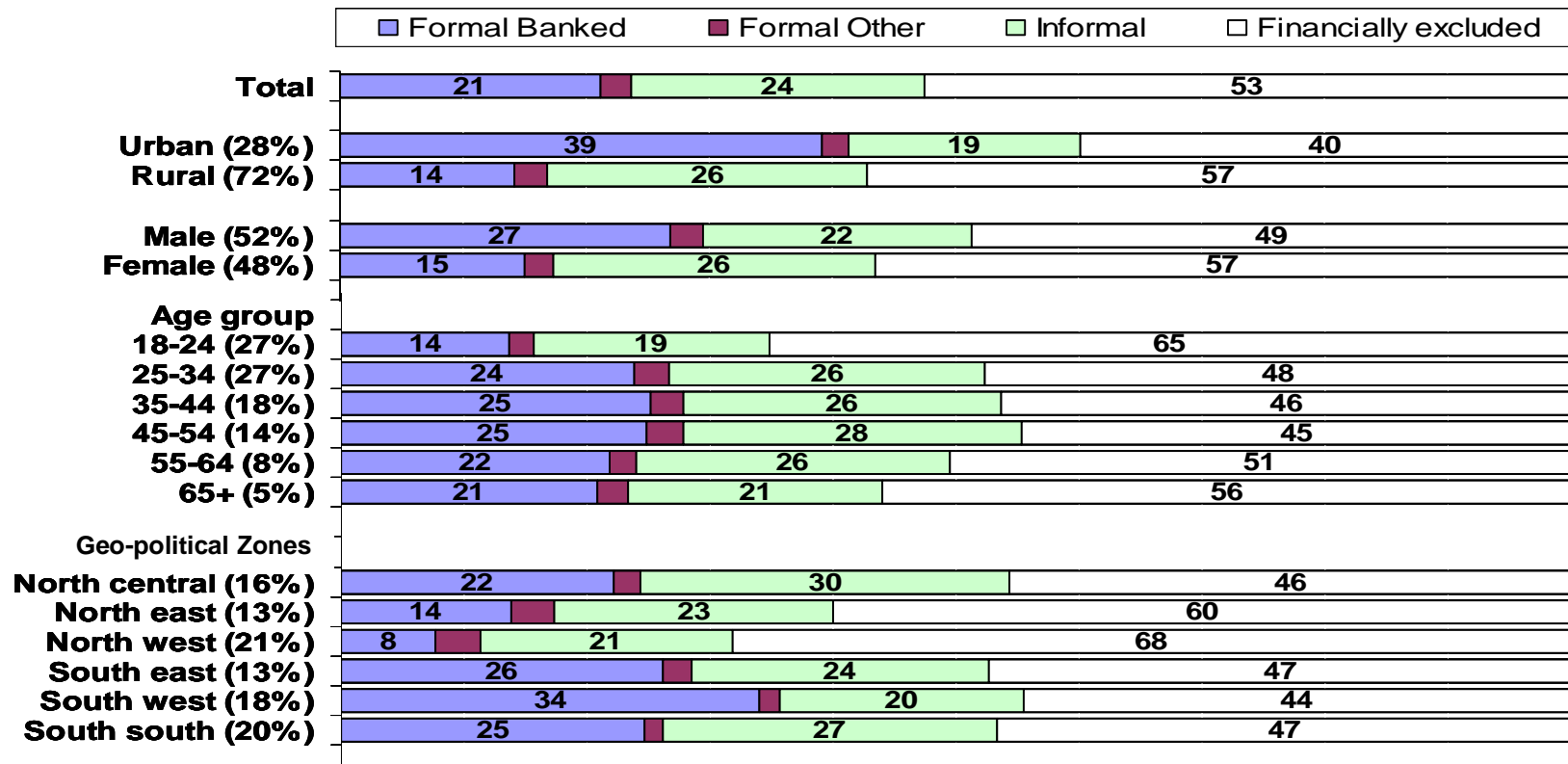


This is the distribution among the 47.5% of adults who are financially **served** – the remaining 51.5% of adults are financially **excluded**



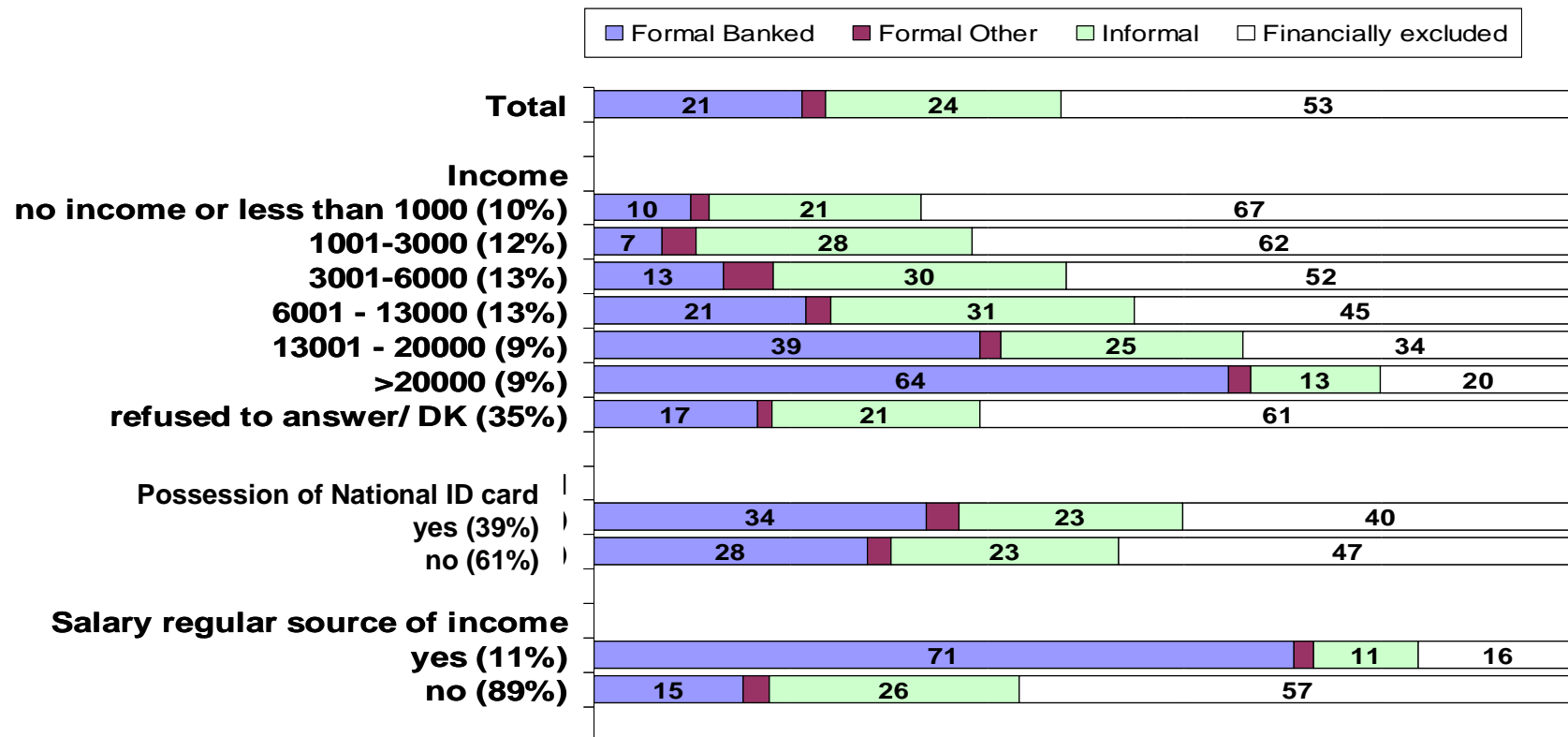
# The demand side (II)

## Access to Finance by demographic subgroup



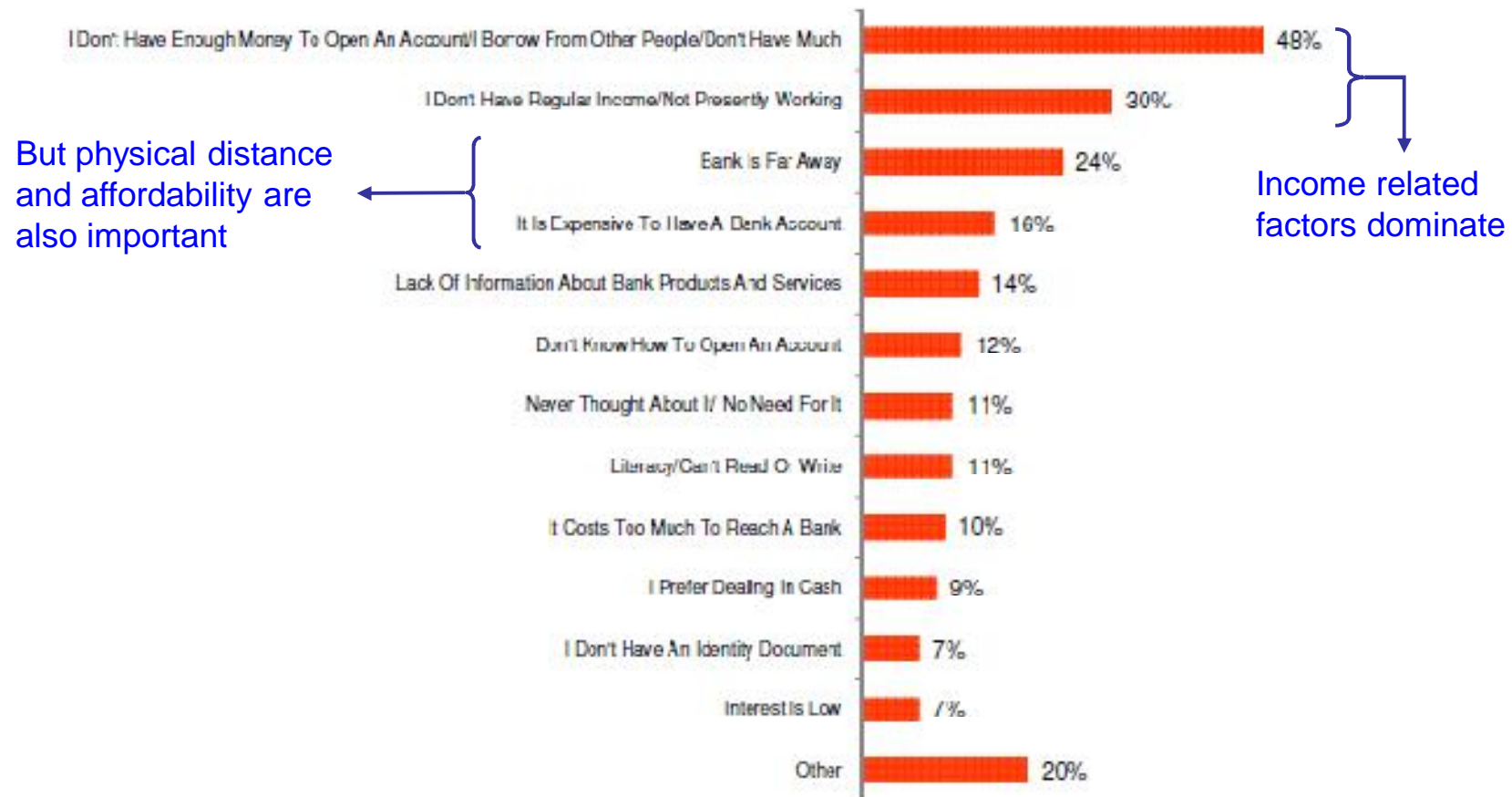
# The demand side (III)

## Access to Finance by income related groups



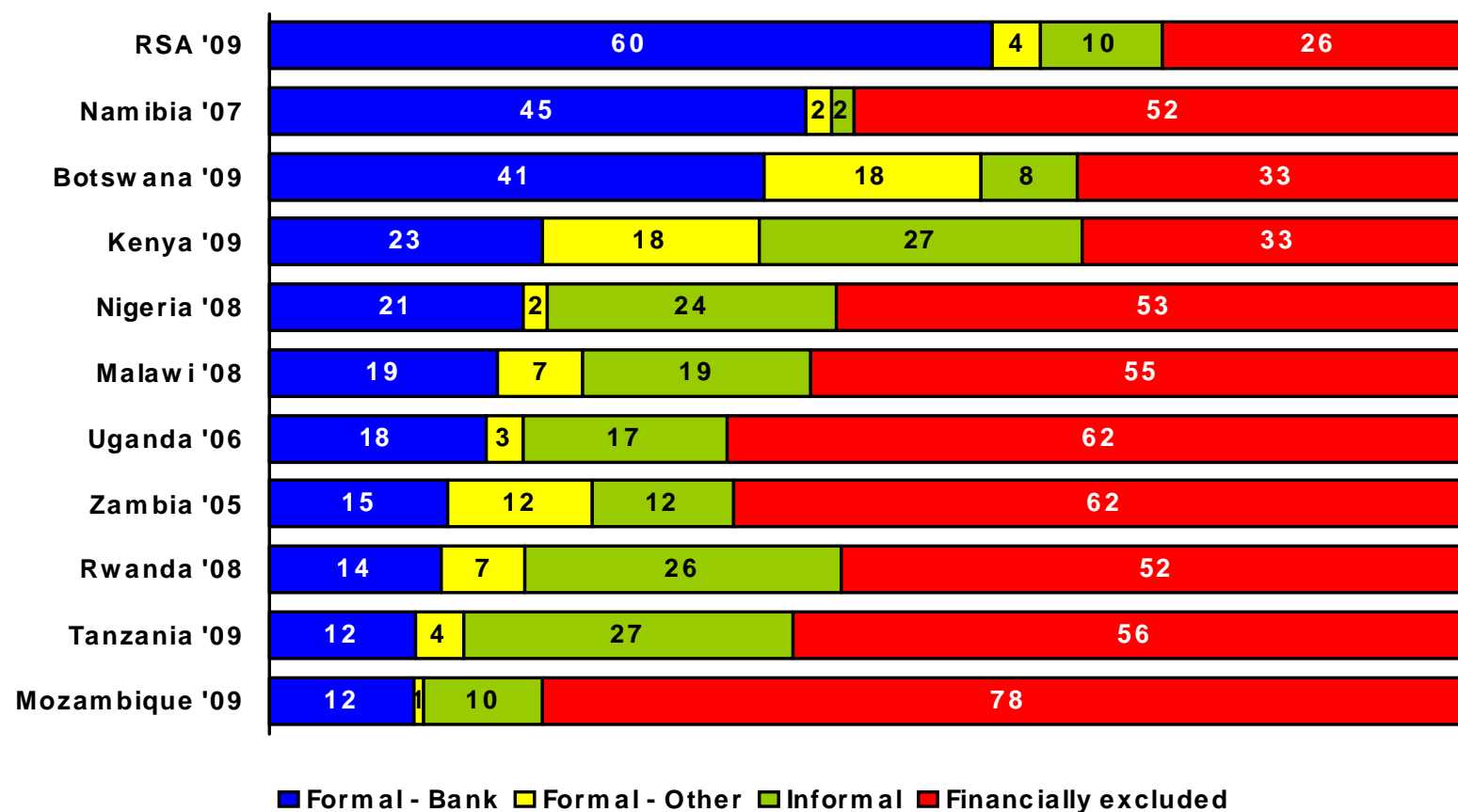
# The demand side (IV)

## Reasons for not having a bank account



# The demand side (V)

## International comparisons



Source: FinMark Trust, February 2010

## The supply side – institutions

---

### CBN regulated institutions

Category	Number
Commercial Banks (Deposit Money Banks)	24
Microfinance Banks	901
Development Finance Institutions	5
Bureaus de Change (including 50 Class A)	126
Finance Companies (Non Bank Financial Institutions)	112
Primary Mortgage Institutions	98
Discount Houses	5

# The supply side – banking sector consolidation

Pre-consolidation (up to December 2005)

Smaller banks with persistent illiquidity, weak asset quality and generally unviable operations

Consolidation (2006 - August 2009)

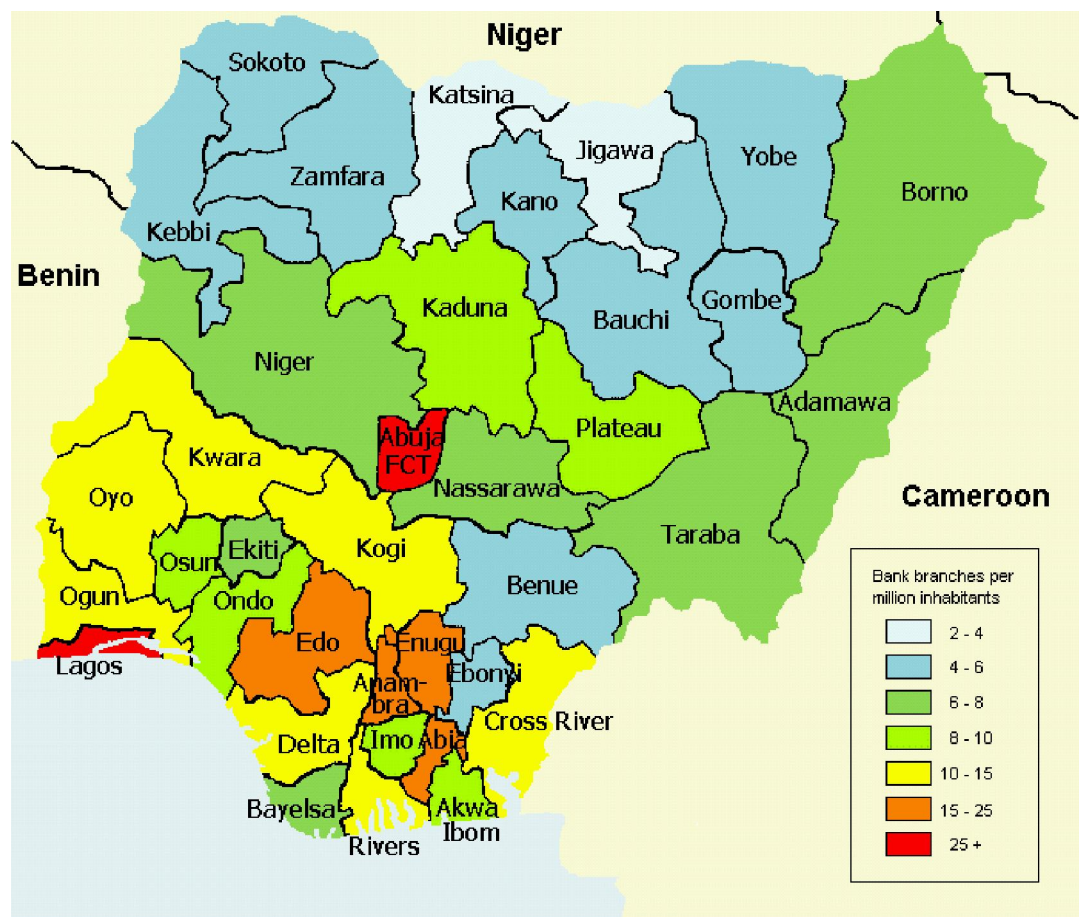
The increase in the minimum capital base for all universal banks to N25 billion reduced the number from 89 in 2004 to 24 by 2007

Post consolidation 'reality check' (August 2009 to date)

Emphasis on transparency, efficiency and access, to provide the much needed intermediation for economic growth and financial access

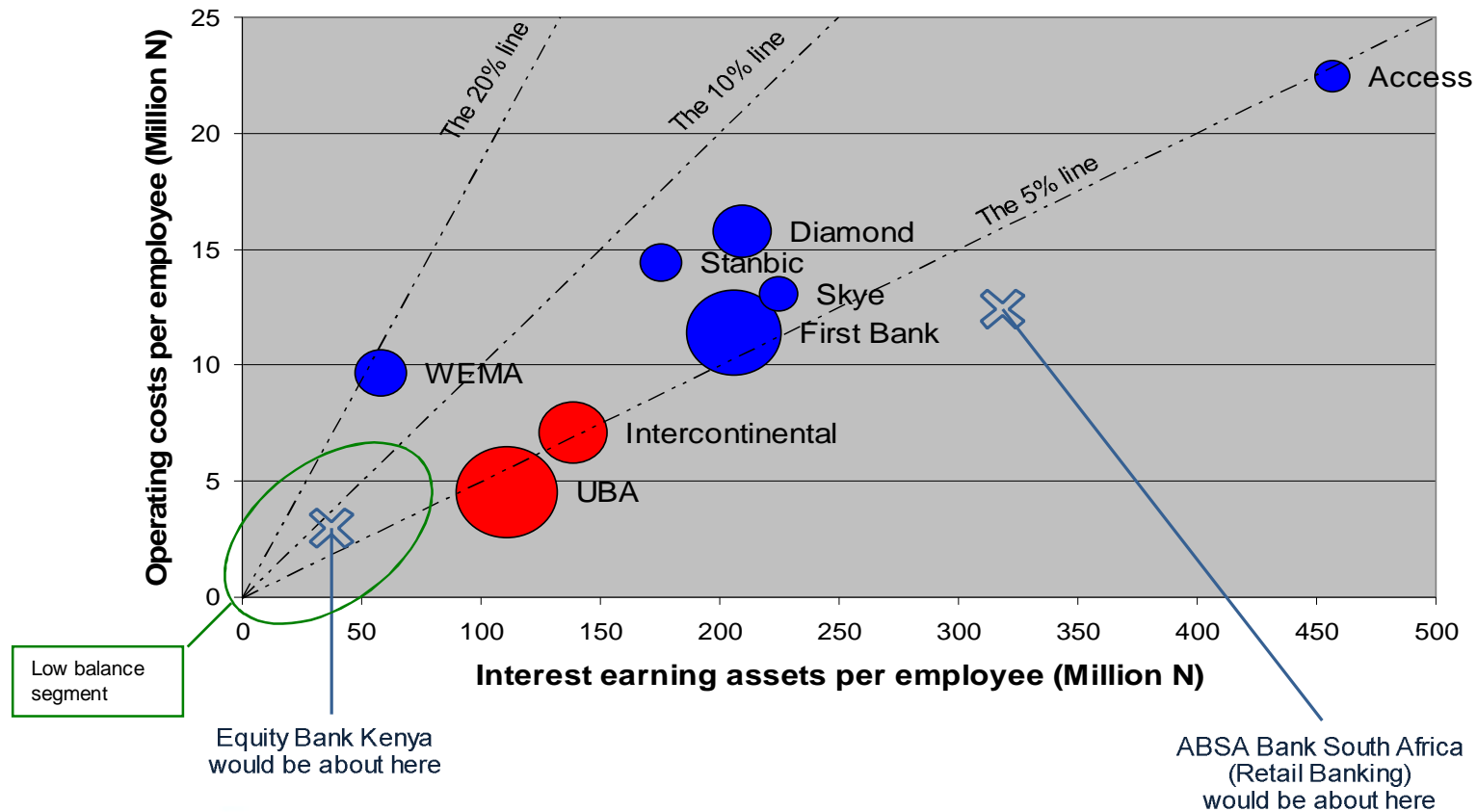
# The supply side – deposit money banks (DMBs)

## Branches per million inhabitant: accessibility



# The supply side – deposit money banks (DMBs)

Cost structure: cost and assets per employee > affordability





## The supply side – microfinance banks (MFBs)

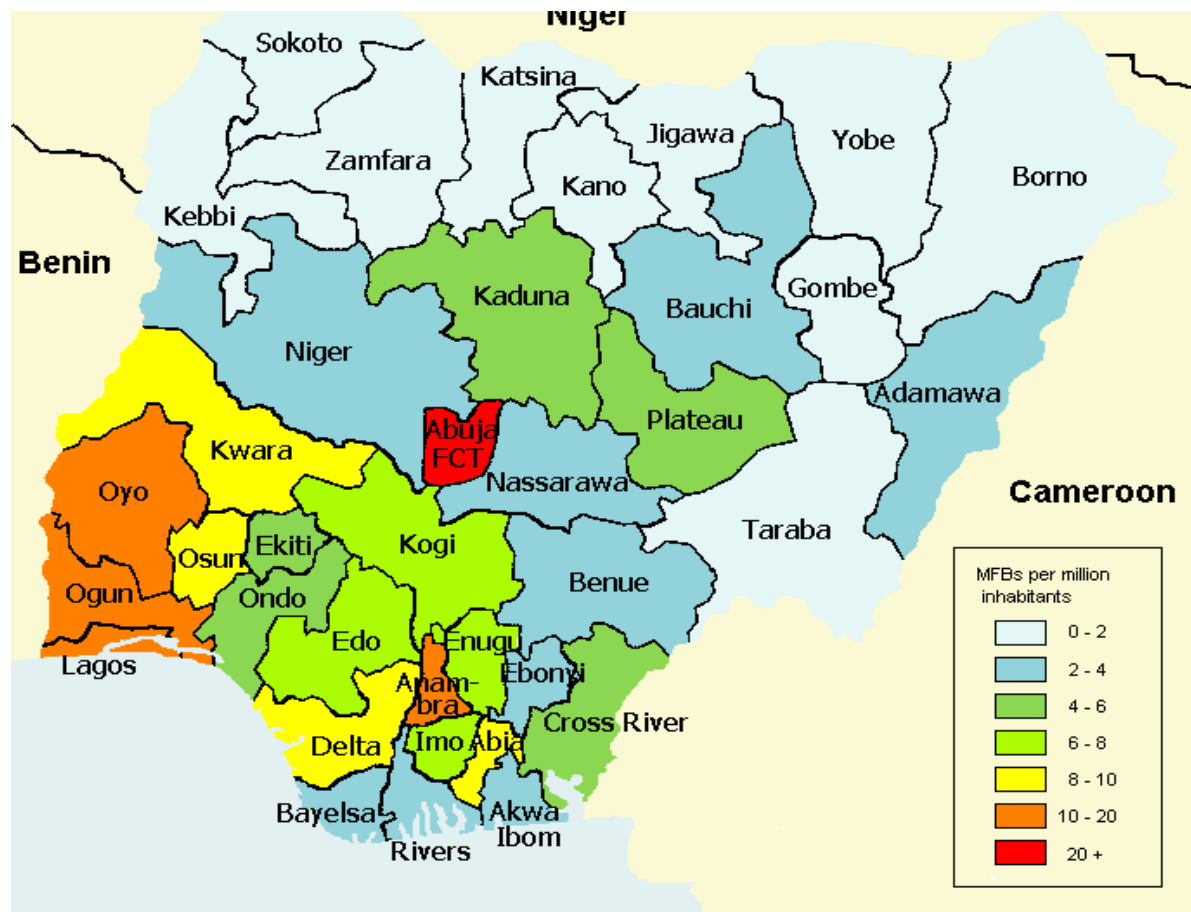
**901 MFBs in the country with a combined asset base of NGN 155.3 billion**

Number of MFBs in each zone by size

	<b>&lt;N1 m</b>	<b>N1m to N1 billion</b>	<b>&gt;N1 billion</b>
North West	47	16	0
North East	17	16	0
North Central	82	44	1
South West	201	127	11
South South	55	52	4
South East	65	90	4
<b>NIGERIA</b>	<b>467</b>	<b>345</b>	<b>20</b>

# The supply side – microfinance banks (MFBs)

## Distribution of MFBs



# The supply side – microfinance banks (MFBs)

## Characteristics of survey sample

MFBs	Branches	Depositors	Borrowers
LAPO (formerly MFI)	236	263,909	200,115
Fortis	14	35,000	3,600
Accion	10	38,000	12,000
People Serve	1	3,024	144
Kofi	7	40,000	10,000
Amore	1	3,500	-
Gains	15	55,000	25,000-30,000
Bam	1	5,000	1,000

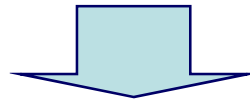
## Loans and advances as ratio of deposits

Region	Ratio
North West	115%
North East	158%
North Central	81%
South West	93%
South South	109%
South East	56%
<b>Nigeria</b>	<b>86%</b>

# The supply side – insurance companies

---

- Recapitalisation in the insurance sector took place in 2007, and consolidation
- Two re-insurers and 48 underwriters. There are 600 registered insurance brokers but with a few dominant players
- The distribution channels for insurance services are still limited to physical branches, agents and insurance brokers
- Most insurance companies are collecting premiums that are not even adequate to cover mandated capital.
- Very low market awareness of the need for insurance and reduced project financing has resulted in reduced demand for project related insurance



**The financial crisis has negatively affected the insurance sector**

# The supply side – pensions and securities

## Pensions industry

Worth an estimated N1 trillion (US\$7 billion) as at 2008 and has an estimated annual growth rate of 15%

However, it remains small: Only 2.3% of Nigerian adults are members of a pension scheme.

## Securities market

The Nigerian Stock Exchange is one of the largest in Africa. It has 261 listed companies with a total market capitalization of about N8.37 trillion (\$56 billion) as at end July 2010

6% of the adult population, or about 4.5 million people hold shares or unit trust investments.

# The supply side – Co-ops and NACRDB

---

## Co-operatives

Well suited to address the large unmet demand for financial services in Nigeria because:

- a) Cost structure
- b) Proximity of members
- c) Ability to do without sophisticated, dispersed offices

**BUT there are virtually no aggregated data available**

## Nigerian Agricultural Cooperative and Rural Development Bank Ltd (NACRDB)

Potential to be a significant player in the financial sector in terms of financial inclusion but facing too many challenges

# The supply side – financial exclusion persists

## Main reasons:

- High concentration of government borrowing relative to GDP
- Lending to the private sector went to bigger companies and less to small businesses and individuals
- High interest rates and short loan maturities which together made credit less easily accessible by poorer segments of population

## Other factors include:

- Low savings interest rate relative to inflation
- Low real income levels leading to higher cash holding
- Lack of credit reference mechanism, e.g. credit bureau (until recently)
- Legal loopholes being exploited by defaulters
- Shortage of qualified manpower, and
- High level of risk aversion due to policy-induced market disequilibrium.

# Outline

---

1. The objective and methodology of the survey
2. The Nigerian economy
3. The demand side – access to finance
4. The supply side – institutions and regulation
5. Constraints to financial access
6. The supply side response
7. The landscape of access
8. Windows of opportunity
9. Conclusions



## Constraints to access

---

- Contextual
- Regulatory
- Systemic
- Organization and products:
  - Accessibility, affordability, appropriateness
- Demand

## Wider constraints to access: [accessibility](#)

---

### Important regional differences

State	Bank branches per 1 million inhabitants	ATMs per 1 million inhabitants
	Bank branches of UBA, GT Bank, Intercontinental, Stanbic IBTC, Diamond and First	ATMs of UBA, GT Bank, Intercontinental, Diamond and First Bank <sup>[1]</sup>
Abuja	76	92
Lagos	56	60
Kano	6	5
Katsina	3	2
Jigawa	2	2
All States	13	13

<sup>[1]</sup> ATM data were not available for Stanbic ITBC

## Wider constraints to access: **affordability**

---

Affordability does not exclude lower income people from accessing an account (**‘barrier effect’**) but using the account is likely to be too expensive for most people in the target income range (**‘inhibitor effect’**).

No. of transactions per month	Transaction type	Cost per transaction	Total monthly charge
2	ATM withdrawal	N100	N200
1	Deposit	-	-
1	Money transfer	N200	N200
2	Withdrawal of N2,000	N20	N20
Total			N420
Total costs as a proportion of N3,000			14%
Total costs as a proportion of N8,000			5.25%

# Wider constraints to access: systemic constraints

## 1. Lack of credit information

- Problem being addressed: two functioning bureaux, a third licensed.
- Credit information system still not comprehensive enough.
- It is expensive for MFBs (membership fee of N175K)

## 2. Inadequate national ID system

## 3. Skills shortages

- Not enough qualified banks staff with the requisite skills to serve a mass market as large as Nigeria's.
- Chartered Institute of Bankers could do more
- Skills shortages particularly acute in microfinance sector
- MFB compulsory certification programme is an attempt to address this issue

# Supply side response: innovative strategies

---

- Basic savings accounts – no minimum balances etc
- Using third party companies to operate agent networks
- Mobile banking (in various forms)
- Using informal-type networks to mobilise savings
- Reaching out to younger people through schools, cooperatives, *okada* riders
- ‘Prize’ savings accounts
- Virtual touch points
- Enhancing the functionality of ATMs, E-branches
- Microinsurance
- Call centres to enhance effectiveness of distributed banking models
- Low cost bank branches; hub and spoke branching strategies
- Non-Interest (Sharia) banking
- Savings accounts for Muslim and Christian pilgrimages
- Children’s savings accounts
- Bank-on-wheels
- Tie-ups (potentially) with the post office
- Leasing products for farming tools; agricultural products for cooperatives

## Supply side response: innovative strategies

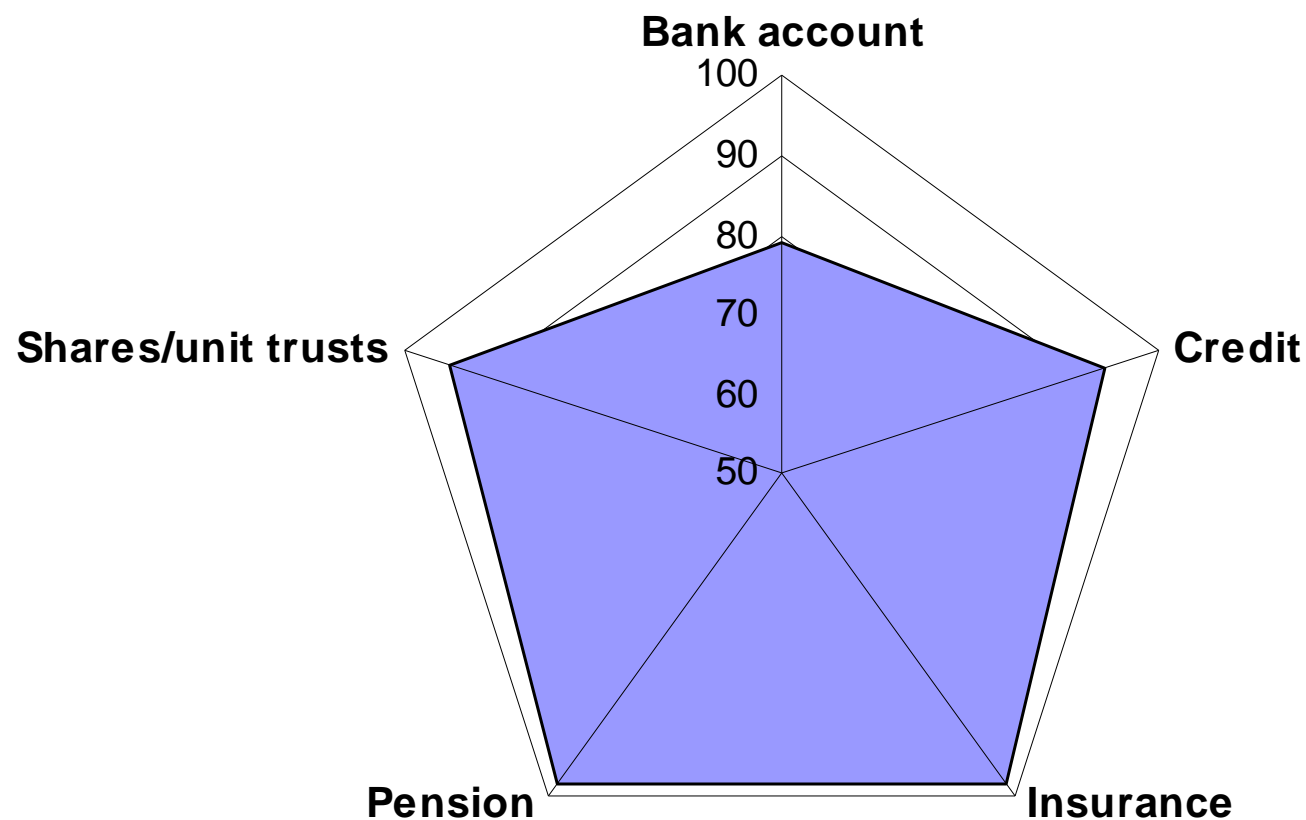
**Technology** is a central element in addressing exclusion

### Main challenges:

- Main focus is on better services to **existing customers** rather than reaching out to the unbanked
- Levels of **fraud** and lack of effective/ timely redress discourages rapid take up of new technologies (e.g. ATM usage)
- Need for greater insights into **customers needs** to avoid a false sense of progress



# The landscape of access – the pattern of exclusion



## The landscape of access - summary

---

- **Transaction banking and transmission services:** there is a reasonable diversity of bank-supplied transaction services at what appear to be relatively low cost, though usage by poor people is constrained because of **accessibility** and **affordability** issues.
- **Savings services:** main vehicle through which banks offer basic transaction services to poorer consumers. **Accessibility** and **affordability** constraints still affect take-up, but there are interesting experiments
- The usage of **credit** is highly constrained for lower income and self-employed consumers. **Affordability** is a major barrier.
- **Insurance and pension sectors** are still very small; **appropriateness**, **accessibility** and **affordability** are all constraints for the poor.
- Surprisingly, more people hold **investments in securities** (in shares or in unit trusts) than have insurance policies or pension schemes, but the products are not yet **appropriate** for the poor.



# Outline

---

1. The objective and methodology of the survey
2. The Nigerian economy
3. The demand side – access to finance
4. The supply side – institutions and regulation
5. Constraints to financial access
6. The supply side response
7. The landscape of access
8. Windows of opportunity
9. Conclusions

# Windows of opportunity 1

---

Shift in **banks' perception** regarding poorer segments of population:

First time that the objectives of the CBN regarding financial inclusion are aligned with the strategic objectives of commercial banks

Factors that may close down this opportunity:

- Objectives not turned into action plan with targets
- Inappropriate sequencing of reforms
- No incentives created for banks to continue downscaling

How to maximize the potential of this opportunity

- Implementation plan with targets
- Creating demonstrative effects: quick wins that may stimulate the process: shaking the tree of the banking sector.
- Adequate grants and incentive strategy

# Windows of opportunity 2

---

The creation of a **Financial Inclusion Unit** to:

- a) collect and disseminate reliable information on financial inclusion
- b) participate actively in the decision-making process involving access
- c) contribute to the effective implementation of inclusive policies
- d) disseminate good practices and lessons learnt on financial inclusion

Factors that may close down this opportunity:

- Lack of resources
- Inadequate/insufficient mandate

How to maximize the potential of the Financial Inclusion Unit

- Promoting institutional cooperation both at local and international level
- Raise the public profile and understanding of financial inclusion issues, as a way of increasing public support

## Windows of opportunity 3

---

**FSS 2020:** Potential to provide overall guidance and policy stability.

Factors that may close down this opportunity:

- The FSS 2020 focuses on a technocratic implementation of reforms rather than in a change of mind-set in financial authorities and the industry generally

How to maximize the potential of the FSS 2020

- Improved involvement of stakeholders to increase sense of ownership
- Need for a monitoring and evaluation framework to improve evidence-based decision-making, transparency and accountability.
- A high level of political support will increase the chances of success for FSS 2020

# Windows of opportunity 4

---

## **National Association of MFBs (NAMB) can**

- a) articulate areas where public and private agents may discuss weaknesses and opportunities for the microfinance industry
- b) encourage transparency, good practices and ethical codes amongst MFBs
- c) contribute to the dissemination and exchange of information

## Factors that may close down this opportunity:

- Governance problems
- Not all MFBs feel that they are represented

## How to maximize the potential of the NAMB

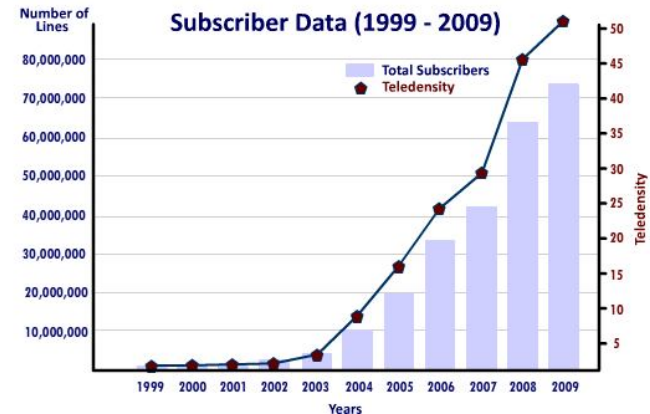
- Provide external technical assistance only in response to genuine demand
- Adopt sufficient time for the institutional development of the NAMB

# Windows of opportunity 5

**Mobile financial services:** provision of financial services through mobile phones

Factors that may close down this opportunity:

- Regulations fail to take test and learn approach



Source: Pyramid Research, Abuja, 2010

How to maximize the potential of this opportunity

- Creating an enabling environment for public-private dialogue
- Development of pilots to (a) validate the feasibility of the proposed model; (b) validate the potential positive impact of the model in terms of adoption, usage, etc.; (c) enable stakeholders to gain experience and allow regulatory framework to evolve in tandem with market
- Promote consumer awareness

# Windows of opportunity 6

---

## Champion of reforms: the CBN

Likely obstacles:

- Internal: institutional culture rather than opposition groups
- External: lack of understanding and support

How maximise the effectiveness of the champion

- Strengthening the links with external agents, without compromising independence
- **Broadening the wins** of the reforms process, allowing more people in the lower segments of population to get access to and make better use of financial services. That will allow the CBN to exert more effective moral suasion.

## Conclusions (I)

---

- There are no simple answers: Nigeria, a big and complex country – physically, demographically and economically.
- The Federal Government has achieved some successes in the reform of the financial sector, but continues to face important **obstacles**, mainly lack of access to financial services.
- Inclusive financial sector development makes two complementary contributions to poverty alleviation: as a **driver of economic growth** which indirectly reduces poverty and inequality; and accessible, affordable and appropriate financial services for low income people can improve their **welfare and reduce their vulnerability**
- Financial exclusion is widespread despite the wealth of Nigeria, and is the result of a combination of **contextual factors** and **factors within the financial sector itself**



## Conclusions (II)

---

- There are, however, encouraging signs:
  - Government's commitment to **FSS 2020**
  - There are effective **champions of reform**, particularly the CBN
  - A number of the commercial banks are already piloting interesting **downscaling products** and services.
  - There is a strong interest in the use of **branchless banking** solutions.
  - There are interesting opportunities for the development of **agent banking**, given the esusu/adashi tradition in Nigeria.
  - There is also **fertile ground for mobile financial services**, given that 50% of the Nigerian population already has access to a mobile phone
  - Some **MFBs** are achieving sustainability.

# THANK YOU

[www.efina.org.ng](http://www.efina.org.ng)

[www.opml.co.uk](http://www.opml.co.uk)

[www.devassltd.com](http://www.devassltd.com)