Driving Financial Inclusion: Lessons from other countries

NESG Financial Inclusion Thematic Group Meeting

Presented By

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EFInA

Insights from Nigeria

While overall financial inclusion continues to grow incrementally, progress has been too slow to meet National Financial Inclusion Strategy targets

*** The NFIS target is*: Reduce financial exclusion rate of adults to 20% by 2020***

			Status as at						
	Focus Areas	**Target by 2020**	**2010**	**2012**	**2014**	**2016**	**2018**	**2020**	**Variance to 2020 Target**
% of Total Adult Population	**Payments**	**70%**	22%	20%	24%	38%	40%	**45%**	-25%
	Savings	**60%**	24%	25%	32%	36%	24%	**32%**	-28%
	Credit	**40%**	2%	2%	3%	3%	2%	**3%**	-37%
	Insurance	**40%**	1%	3%	1%	2%	2%	**2%**	-38%
	Pension	**40%**	5%	2%	5%	7%	8%	**7%**	-33%
	Formally served	**70%**	36.3%	43.0%	48.6%	48.6%	48.6%	**50.5%**	-19.5%
	Financial Exclusion	**20%**	46.3%	39.7%	39.5%	41.6%	36.8%	**35.9%**	-15.9%

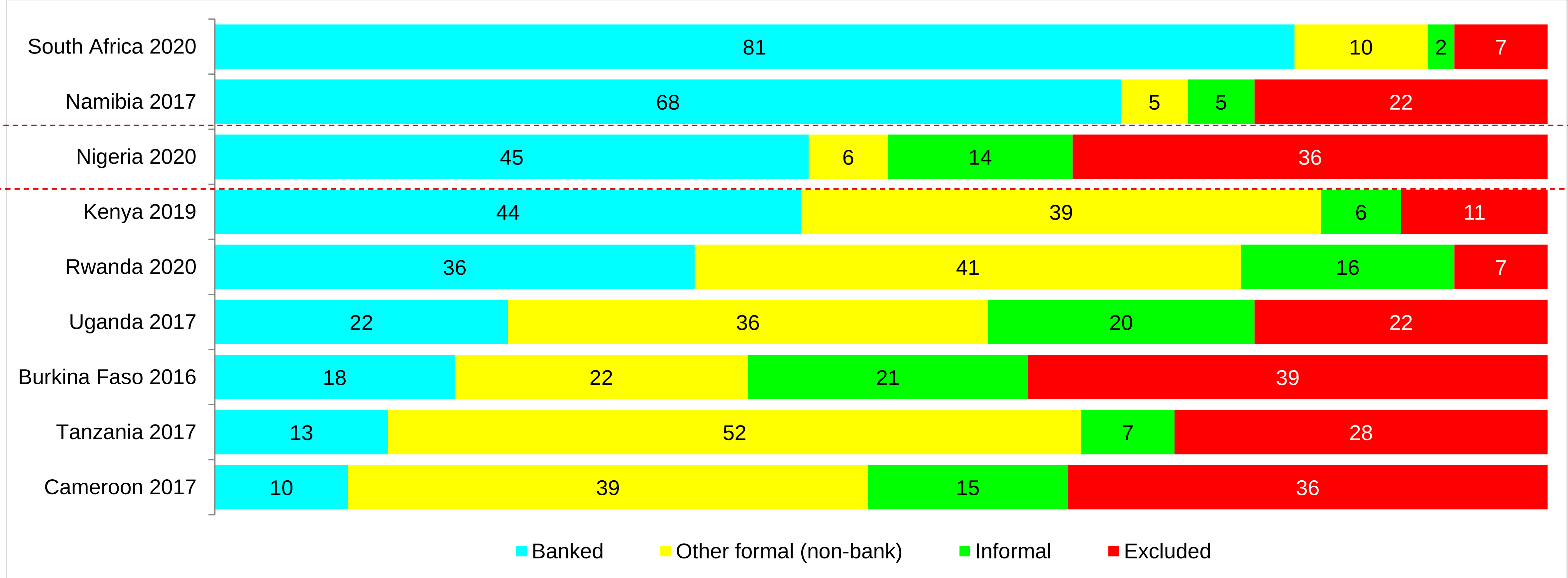
DEFINITION OF INDICATORS

Payments:	% of adult population that has a transaction account with a regulated financial institution and/or has made an electronic payment through a regulated financial institution in the last 12 months
Savings:	% of adult population that has a savings-related product at a regulated financial institution and/or has saved through a regulated financial institution in the last 12 months
Credit:	% of adult population that has had a credit product through a regulated financial institution in the last 12 months
Insurance:	% of adult population that is covered by a regulated insurance policy
Pension:	% of adult population that is contributing to a regulated pension scheme or receiving a pension through a regulated pension scheme

Source: EFInA Access to Financial Services in Nigeria 2020 survey

Nigeria has a higher rate of financial exclusion than many other countries in Sub-Saharan Africa

- Although Nigeria has a higher proportion of banked adults than many comparator countries, it also has a high proportion of financially excluded adults at 36%
- Several countries have expanded financial inclusion via non-bank mobile money (reflected in yellow sections)



Note: There are some slight differences in the classification of products/services in the categories of the access strand between the countries

Source: EFInA Access to Financial Services in Nigeria 2020 survey and countries implemented Fin Scope surveys

Learnings from other countries

Comparison of Financial Inclusion models in Nigeria, Kenya and India

Evaluation criteria	Nigeria	India	Kenya
Financial inclusion	• Clear national commitment towards financial inclusion. • Financial inclusion efforts suffer from a narrow focus on access.	• There is a clear national commitment & support toward financial inclusion. • Strong focus on all dimensions financial inclusion (access, usage, quality), and are largely supported by Government scheme	• There is a clear national commitment & support toward financial inclusion. • Strong focus on all dimensions financial inclusion (access, usage, quality), and are largely supported by Government scheme
Infrastructure	• NIBSS provides real-time payment platform for facilitating inter-bank transactions • Inadequate physical and ICT infrastructure limits shift to digital delivery channels due to cost implications particularly in rural or marginalized areas.	• There is a unified Payments Interface (UPI) an instant real-time payment system for facilitating instant inter-bank transactions on a mobile platform between UPI-enabled banks. • UPI multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood.	• Kenya has evolved beyond just mobile money to an e-money platform that allows for virtual banking system, starting with savings accounts operated under the same platform, short term credit applied and disbursed through the same platform, enable cross-border payments and international remittances,
Regulatory frameworks	• Regulation is not nimble and responsive enough to innovation • Regulation often perceived as protecting the dominance of some sector players • Inadequate and complex regulations lead to confusion and impact stakeholder compliance.	• Most innovations in the financial system are enabled by regulations, mandates and policy review • The revisions of regulations are strongly driven by evidence	• Most innovations in the financial system are enabled by regulations, mandates and policy review • The revisions of regulations are strongly driven by evidence

Comparison of Financial Inclusion models in Nigeria, India and Kenya

Evaluation criteria	Nigeria	India	Kenya
Identity systems	• Highly fragmented ID systems with multiple ID documents that are not comprehensive in use. • Need for a widely accepted ID document to enable financial inclusion.	• Has the world's largest biometric system Aadhaar designed to help ensure financial inclusion	• Current transition into a sophisticated digital ID system • Inherent risks with digital ID system abounds
Competitive landscape	• Sector players operate in 'silos' that present challenges in growing reach and access. • Collaboration and partnerships among sector players key to enhance the business case for financial inclusion efforts.	• Government is championing financial inclusion initiatives • Government policy explicitly prioritizes access to the banking system as a tool for poverty reduction and inclusive growth	• Significant collaboration and partnerships among sector players - Banks, microfinance institutions, insurances, pension funds and utility companies provide information to CRBs.
Distribution networks	• Ineffective agent network management. • Weak agent and customer value propositions lead to high rates of inactivity among agents.	• Innovative distribution networks such as India Post Payments Bank aims to provide banking services to urban and rural areas, but its primary focus is on the rural segment offering doorsteps (assisted) banking, counter operations, micro ATMs. USSD and mobile wallets • Linking informal associations to banks	• Sustainable and ubiquitous agent networks

Comparison of Financial Inclusion models in Nigeria, India and Kenya

Evaluation criteria	Nigeria	India	Kenya
Products and services	• The financial needs of the mass market are not addressed adequately, as existing products are either unaffordable or inappropriate for their unique financial management needs.	• Most products are targeted at addressing specific needs of the mass market • These products are usually championed by Government schemes and usually subsidized	• Most products are targeted at addressing specific needs of the mass market • Leverages the informal financial products/services to address financial needs
Users	• The target market features low-income, cash heavy, low-literacy, financially unhealthy individuals residing in geographically inaccessible areas characterized by inadequate physical and ICT infrastructure.	• The target market features low-income, digital heavy, high digital literacy, individuals residing in rural areas characterized by widespread financial infrastructure	• The target market features lower-middle income, e-money heavy, high digital literacy, individuals residing in rural areas characterized by widespread financial infrastructure

Potential opportunities in the Nigerian market

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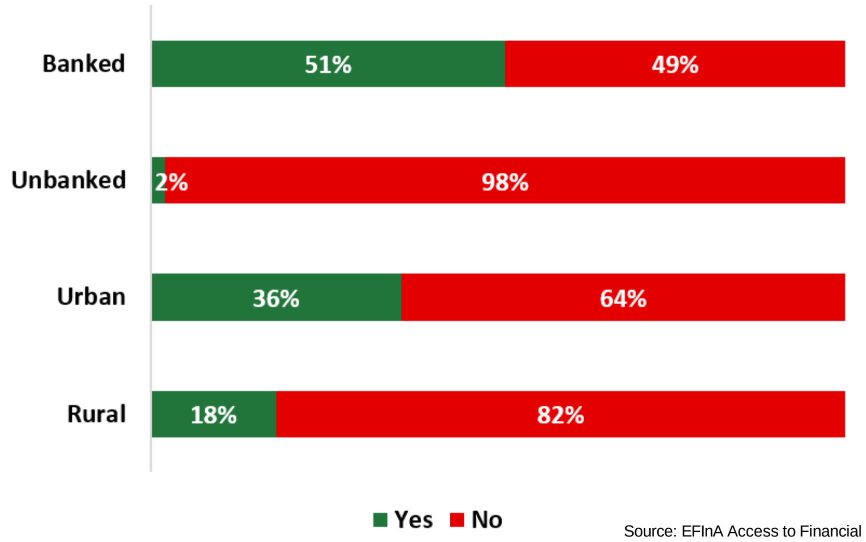
To reach the unbanked population, DMBs must work to address the obstacles of access and institutional exclusion1

- Although the use of financial service agents increased significantly from about 4 million adults using agents in 2018 to 26 million using agents in 2020, usage remains low among the unbanked and rural population
- 62% of adults in rural areas are not within proximity of financial access points/financial service providers
- Expanded agent networks could extend the reach of formal financial services to more than 24 million financially active2 formally excluded adults

Barriers	Net %
Attitudes/perceptions	34
Access to banks	31
Little/irregular income	31
Institutional exclusion	22
Unemployment	21
Cost of banking	15
Low interest on deposits	3

1.Institutional exclusion refers to operational or regulatory factors such as identity or documentation requirements, and ability to read/write in English
2.Financially active adults are saving, borrowing and/or remitting

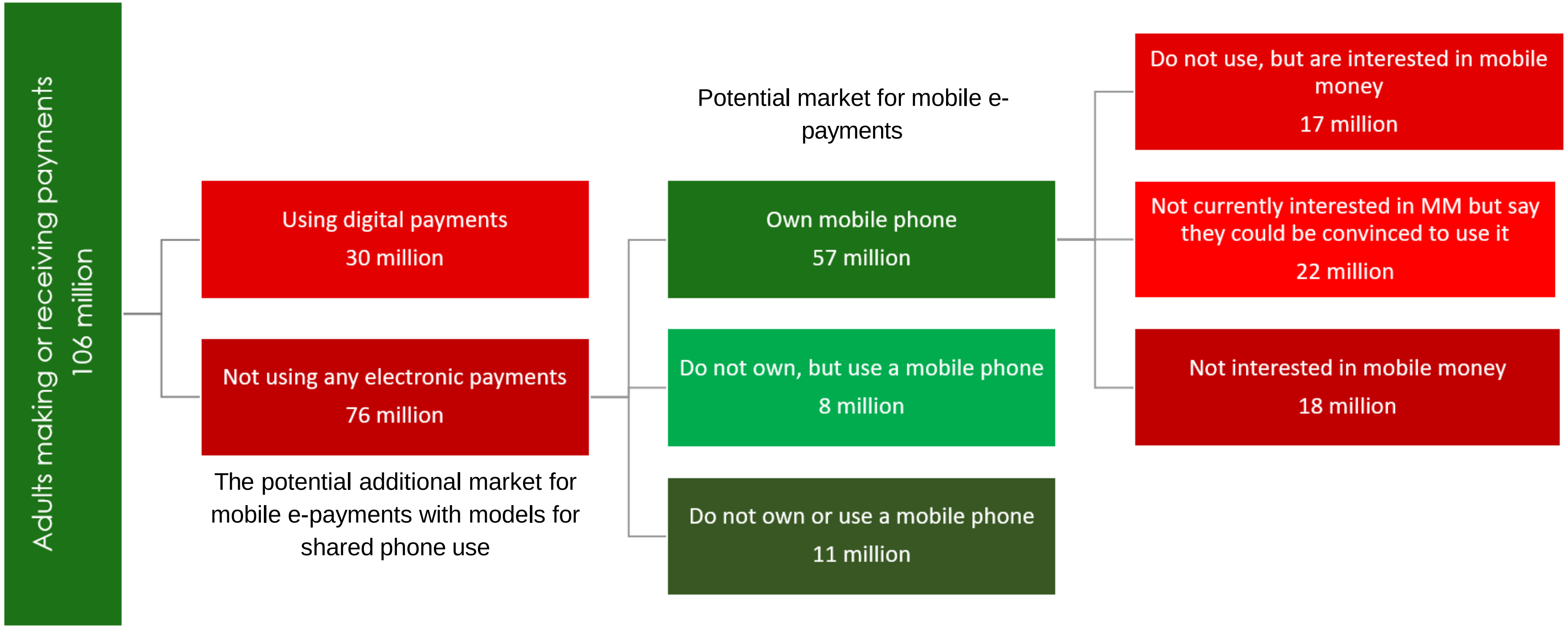
Have you used a financial service agent in the past 12 months? (% of adults)



Source: EFInA Access to Financial Services in Nigeria 2020 Survey

17 million adults not currently making electronic payments own phones and are interested in using mobile money

By leveraging innovative technologies, DMBs can extend access to more customers, improve the usage of products by developing an attractive & socialized customer experience, and improve the quality of financial offerings with the goal of improving financial health; accompanied by a reduction in cost



Source: EFInA Access to Financial Services in Nigeria 2020 Survey

There are a large number of unmet needs in the mass and SME segments. Lending presents the biggest revenue opportunity – serving customers across youth, SMEs and affluent

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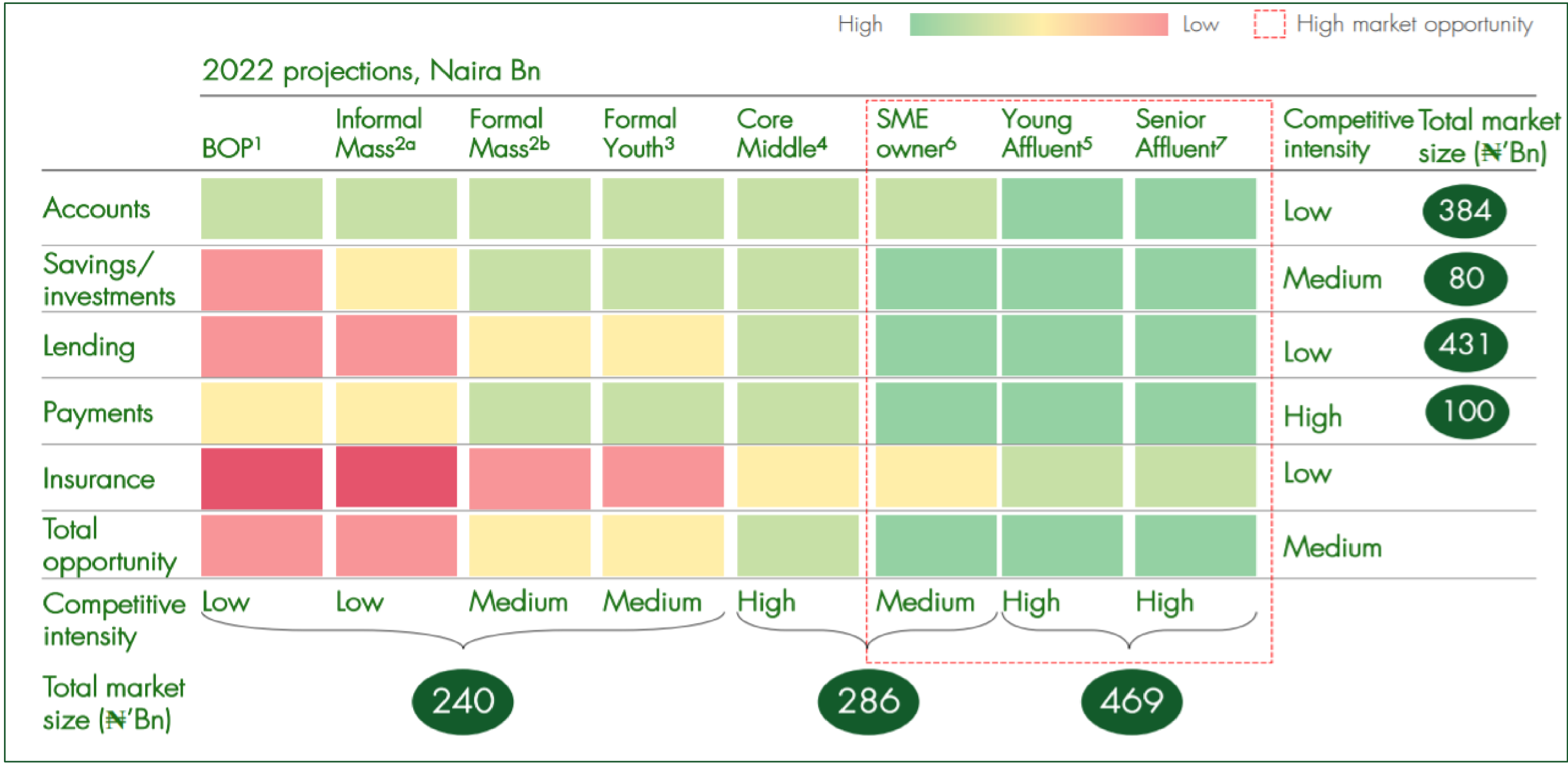
Common customer pain-points

Limited value added services/ benefits from using products

Limited access to lending products at favourable rates

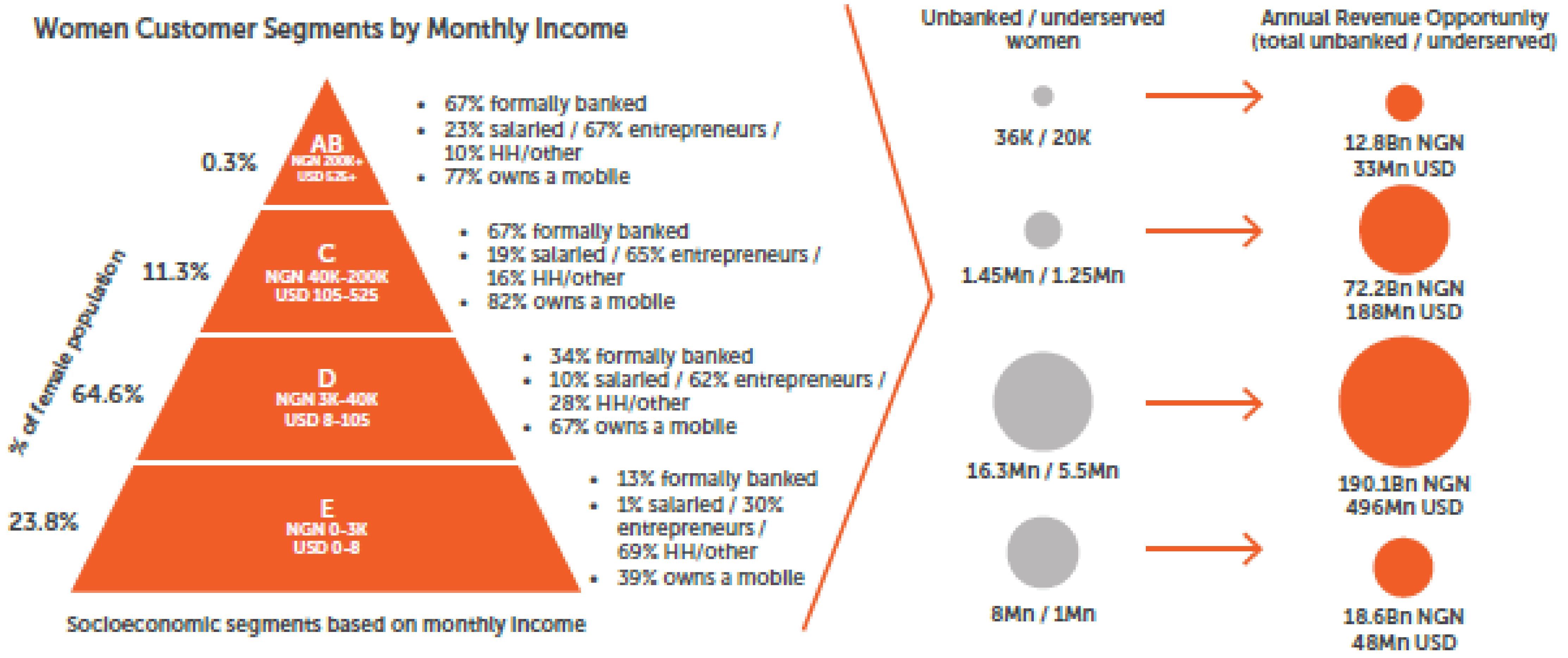
Lack of tailored products



1. BOP includes rural dwellers and subsistence farmers
2a. Mass market includes housewives, petty traders, okada riders, artisan/domestic worker
2b. Includes teachers, entry level employees, civil servants
3. Youth includes students, early graduates and hustlers
4. Middle market include young professionals, mid-level civil servants
5. Young affluent includes mid level execs & middle aged professionals
6. SME owners includes large traders, freelancers, family business owners
7. Seniors include senior civil servants, senior executives and retirees

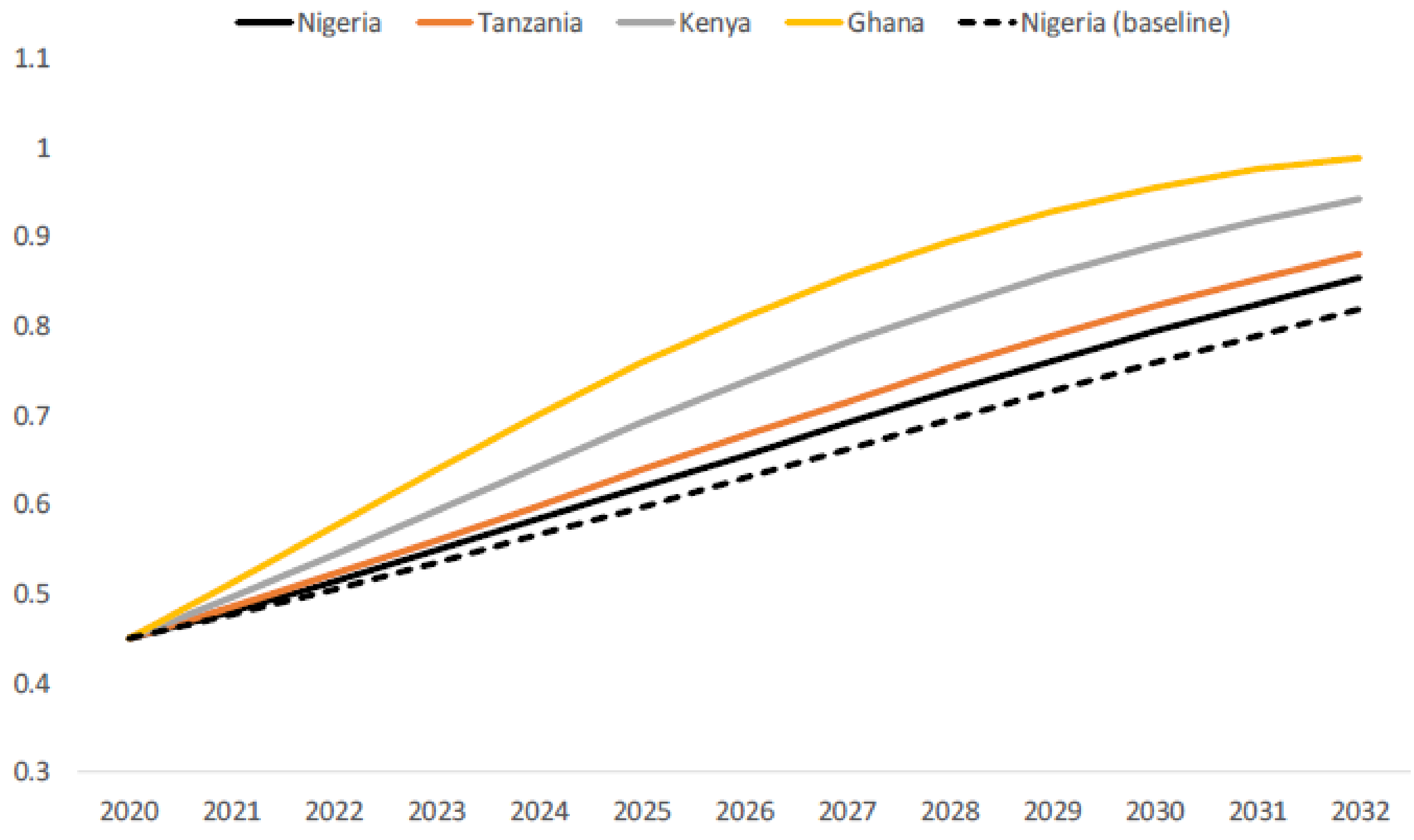
SOURCE: McKinsey Africa Retail Banking report, Team Analysis

There is an estimated market opportunity of USD$760 million in potential annual banking revenue from expanded financial service offerings for women



Market sizing was published by Women's Financial Inclusion Data (WFID) Partnership in their report 'Towards women's financial inclusion: A gender data diagnostic of Nigeria. This market sizing was computed using insights from the Access to financial services in Nigeria survey

If Nigeria experiences rapid uptake of mobile money experienced in some neighbouring countries, financial inclusion targets could be met much faster



WORLD DATA LAB

Source: World Data Lab and Consumer Centrix predictive analysis of financial access trends in Nigeria
Analysis used multiple data sources including EFInA Access to Financial Services in Nigeria survey datasets

Recommendations

- Reaching the last mile
- Investing in financial infrastructure
- Leverage alternative distribution channels
- Enabling market entry and innovation
- Leverage customer-centric business models
- Build value propositions for customers based on long-term relationships between clients and financial service providers
- Collaboration across the financial services value-chain

Thank You

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