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LEVERAGING TECHNOLOGY FOR FINANCIAL INCLUSION

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Introduction

Financial Inclusion refers to the deliberate efforts targeted towards removal of barriers that exclude people from accessing financing and participating in the financial services sector. It involves the provision of affordable and accessible financial products and services to individuals and businesses regardless of the net worth of individuals or the value of the businesses.[1] Therefore, this implies that the aged, physically challenged and vulnerable within the society should have access to and effectively use a range of financial services which should be provided in a responsible, safe and sustainable manner within a well-regulated environment. This should include access to finance from formal financial institutions for varied purposes including for educational and business opportunities, as well as the use of formal insurance products that allow people to better manage financial risks.[2] Financial products and services include payments, savings, credits, investments, pension, insurance, etc. which are delivered in a responsible and sustainable manner.

Available research data indicate that the percentage of Nigerian adults that were served by financial service providers stood at 36.3% in 2010 and grew from 43% in 2012 to 48.6% in 2016. It improved to 64.1% in 2018.[3] The banked population stood at 30% in 2010 and grew from 32.5% in 2012 to 38.3% in 2016.[4]

The above data confirms the need to leverage technology to bridge the financial inclusion gap.

Financial exclusion of individuals in Nigeria and sub-Saharan Africa has been attributed to cultural and religious barriers, difficulties in profitably serving excluded groups, high levels of unemployment, security challenges, poverty, geography and continuing high levels of informality in the economy.[5] In some instances, there has not been sufficient governmental or political commitment to drive the necessary reforms and policy initiatives that will drive the growth of financial inclusion.

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1 Michell Grant "Financial Inclusion" December, 2020, available at https://www.investopedia.com/terms/f/financial-inclusion.asp; last accessed on 26th May 2021.

2 Demiguc-Kunt, A., L. Klappler and D. Singer "Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence" World Bank Policy Research Working Paper 8040. World Bank: Washington DC.

3 Okafor Endurance "Facts Behind Financial Inclusion Figures: Nigeria's 2021 Indices" December 29, 2021, available at https://businessday.ng/financial-inclusion/article/facts-behind-financial-inclusion-figures-nigerias-2021-indices/#:~:text=With%20a%20tepid%200.9%20percent,to%2035.9%20percent%20in%202020; last accessed on 30th March 2022

4 National Financial Inclusion Strategy (Revised), October 2018.

5 National Financial Inclusion Strategy (Revised).

Another reason for financial exclusion is the low levels of education. According to a World Bank Report, unbanked adults are more likely than people with accounts to have low levels of education. In the developing world, about half of all adults have no more than a primary school education; among unbanked adults, the share is close to two-thirds. The Report further stated that in developing economies in Europe and Central Asia, 34% of unbanked adults have no more than a primary school education.

A study into countries such as China, Kenya, India, and Thailand where financial inclusion rate is more than 80% of the adult population, reveals that they were able to achieve such great strides and feats due to their reliance on financial reforms and private sector innovation, and a push to open low-cost accounts, including mobile and digitally enabled payments.[6]

Kenya has set itself as one of Africa's top performing economies, 82.9% of the adult population in Kenya have access to at least one financial product.[7] Kenya has been able to make immense progress in the financial inclusion space due to its positive regulatory environment and attractive macroeconomies. One of the key points to note in Kenya's success in increasing the financial inclusion rate of its adult population, is the role the fast-growing middle-class population has played in adopting financial products thus being a major causative factor in reducing the financial exclusion rate.

According to a World Bank Report on Financial Inclusion, countries that have achieved the most progress toward financial inclusion have allowed mobile financial services to thrive, welcomed new business models, such as leveraging e-commerce data for financial inclusion, taken a strategic approach by developing a national financial inclusion strategy which brings together diverse stakeholders including financial regulators, telecommunications, and competition.[8]

Financial Inclusion as the Enabler of Economic Growth.

According to the World Bank's Universal Financial Access initiative, 2020,[9] financial inclusion is considered as a key enabler to reducing extreme poverty and boost shared prosperity. It also considers financial inclusion as an enabler of 7 of the 17 Sustainable Development Goals.

6 World Bank Group "Achieving Universal Financial Access by 2020".
7 Felix Dziedzorm Davis Sr "Fintech: Kenya leads US, China and Arica in financial inclusion, providing essential lessons for other African Countries" June 24, 2021 available at https://www.benjamindada.com/fintech-kenya-leads-us-china-and-africa-in-financial-inclusion-providing-essential-lessons-for-other-african-countries/#:~:text=According%20to%20-the%202019%20FinAccess,Kenyans%20moved%20a%20record%20Sh4. Last accessed on 30th March 2022.
8 See 5 above
9 World Bank Group "UFA 2020: Universal Financial access by 2020"

Financial inclusion facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other financial services, such as savings, credit and insurance, to start and expand their businesses, invest in education or health, manage risk, and weather financial shocks, all of which can improve the overall quality of their lives. Financial inclusion makes the ordinary citizen very productive and happier and that goes a long way to improve their standard of living. Micro and small enterprises can obtain funds in a form of loan from financial institutions to overcome cash constraints to start new business projects. Formal financial institutions save individuals from the burden of relying on other sources of loans in the informal sector that mostly charge exorbitant interest rates and make unrealistic collateral demands. This means that financial inclusion, which provide individuals, micro and small enterprises access to formal financial services empower them to pursue growth opportunities and protect them from exploitation. Financial inclusion on a macro scale boosts economic growth through savings mobilization. [10]

According to a report by Mckinsey in 2016, broadening access to finance through digital means can unlock productivity and investment, reduce poverty, empower women, and help build stronger institutions with less corruption—all while providing a profitable, sustainable business opportunity for financial service providers. The benefits for individuals, businesses, and governments can transform the economic prospects of emerging economies.[11]

Technology as the Enabler for Financial Inclusion

There has been a significant increase in the number of financial access point within the last decade due to the spread of mobile money and improved government regulation that has driven digitalization and innovation within the financial services sector especially the payments space. There has been a move from the traditional banking models to comparatively low-cost, branchless banking channels. As a strategy for progressively moving customers away from habitually congested banks, and towards lower cost channels, commercial banks adopted a minimum amount for Over the Counter (OTC) withdrawals. Customers who fall below the threshold are encouraged to use self-service e-channels.

In some regions of the world, such as sub-Saharan Africa, use of mobile money is widespread and a significant share of adults have a mobile money account only, rather than a financial institution account. In China mobile financial services are provided mainly through third-party payment service providers, such as Alipay and WeChat, using smartphone apps linked to a bank account or other type of financial institution account. By contrast, in some African countries, such as Kenya, mobile financial services are offered primarily by mobile network operators, and mobile money accounts do not need to be linked to an account at a financial institution.

In Nigeria, there has been an increase in the number of fintech companies.

10 Kwadwo Boateng "Ghana's Progress on Reaching the Unbanked Through Financial Inclusion" International Journal of Management Studies, (Special Issue 2), 2018.

11 Mckinsey Global Institute: Digital Finance for All; Powering Inclusive Growth in Emerging Economies.

These companies provide services ranging from payments to banking, lending, financial management etc. The increase is largely due to the increased number of internet users in Nigeria.

As of 2020, Nigeria had 99.05 million internet users which amounts to 46.6% of the population.[12] The large increase in fintech companies as well as the huge investments in the fintech space does not necessarily translate to a reduction in the number of unbanked population. This is because the demographic that is mainly underserved might not have access to the internet or the exposure to use the requisite technology or may be due to illiteracy and other socio-economic factors, they may be unable to fully adopt fintech products. It has also been observed that rural Nigeria is not homogenous and different strategies have to be adopted depending on the proximity to economic activity and aggregation of people and factor that will stipulate access to digital financial services.

The implication is that there needs to be adequate incentives for the provision and development of digital infrastructure for the unbanked areas in Nigeria as well as partnerships between government and digital platforms to stimulate growth of digital infrastructure in rural communities in Nigeria. In view of the fact that some of the underserved communities include the aged, the physically challenged and women, technology can be leveraged to provide bespoke financial literacy, financial products and services to these groups of people. These groups represent low hanging fruits as the groups may be easier reached and served for financial inclusion purposes.

Policy Reforms as Tools for Leveraging Technology for Financial Inclusion

Despite the technological advancements in the financial services sector of the economy, there were still challenges in effectively providing financial services to the underserved communities. This has prompted a number of initiatives by the Nigerian government particularly the Central Bank of Nigeria to bridge the financial inclusion gap in Nigeria. We will consider below a few of these initiatives:

Payment Service Banks

In 2020, the Central Bank of Nigeria issued a Regulation for the operations and licensing of Payment Service Banks. The Central Bank of Nigeria, in furtherance of its mandate to promote a sound financial system in Nigeria and the need to enhance access to financial service for low-income earners and unbanked segments of the society issued a Guideline for Licensing and Regulation of Payment Service Banks in Nigeria, to provide for the licensing and operations of Payment Service Banks (PSBs).

12 Joseph Johnson "Number of Internet Users in Nigeria 2015 to 2025" January 27, 2021, available at https://www.statista.com/statistics/183849/internet-users-nigeria; last accessed on 26th May 2021

Payment Service Banks were given a mandate to leverage on mobile and digital channels to enhance financial inclusion and stimulate economic activities at the grassroots through the provision of financial services. PSPs are to facilitate high-volume and low-value transactions in remittance services, micro-savings, and withdrawal services in a secured and technology-driven environment to further deepen financial inclusion. The key objective of setting up PSPs was to enhance financial inclusion by increasing access to deposit products and payment/remittance services to small businesses, low-income households, and other financially excluded entities through high-volume low-value transactions in a secured technology driven environment. PSBs are to operate mostly in rural areas and unbanked locations targeting financially excluded persons, with not less than 25% financial service touch points in such rural areas. Banking and mobile agents have been instrumental in accessing remote and difficult to reach customers.

Shared Agent Network Expansion Facilities (SANEF)

In addition, CBN supported by Deposit Money Banks (DMBs), Nigeria Inter-Bank Settlement Systems (NIBBS) and licensed Mobile Money Operators /Shared Agents launched the Shared Agent Network Expansion Facilities (SANEF) in 2019 as part of its effort to accelerate financial inclusion in Nigeria. The aim was to deepen financial inclusion in Nigeria, drive financial literacy and campaign awareness, on-board 40 million low income un-banked and under-served Nigerians into the financial system, increase financial access points, and support attractive financial products and services such as Savings Accounts, Micro-Credit, Micro-Insurance and Micro-Pensions etc. for low-income earners in Nigeria.

Agent banking has proven to be an effective means of reaching a large number of people, particularly the under-banked and unbanked segments of the adult population.

Mobile Money Services in Nigeria

The growth in financial inclusion in Sub-Saharan Africa can be attributed to mobile money and agent banking. While East Africa has long been the star performer in terms of the evolution of digital financial services, West Africa is the new growth market. Not only in terms of reach, but also for innovation. Banks in the sub-region are increasingly forming partnerships with mobile money operators to offer accessible and affordable services beyond the historical target market and are investing in their own digital operations to build new ways of banking.[13]

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13 Riadh Naouar "Digital Access- "The Future of Financial Inclusion in Africa" International Financial Corporation, 2017.

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The introduction of mobile telephony in Nigeria, its rapid growth and adoption, and the identification of person-to-person payments as a practical strategy for financial inclusion, made it imperative to adopt the mobile channels as a means of driving financial inclusion and the unbanked. The Guideline on Mobile Money Services in Nigeria introduced by CBN addressed the business rules governing the operation of mobile money services, and specific basic functionalities expected of any mobile payment service and solution in Nigeria. The Regulation recognizes two models of mobile money services which are:

- The bank led model which entails where a bank either alone or through a consortium of banks, whether or not partnering with other approved organizations, seeks to deliver banking services, leveraging on the mobile payment system.
- The non-bank model, which allows corporate organizations that have been duly licensed by the CBN to deliver mobile money services to customers.

Nigeria has made significant strides in utilizing mobile money to drive financial inclusion. According to a report by Statistica, Nigeria counted over 370 million mobile money transactions with 15 million mobile money customers and compared to 2018, the number of operators increased consistently[14].

Currently in Nigeria, Telecommunication Operators ("Telcos") are prohibited from obtaining mobile money license. Although CBN recognizes the importance of Telcos in operating the mobile money scheme given the necessity of the infrastructure they provide, it nevertheless feels compelled to prohibit the Telco-led option in order to ensure it retains full control of monetary policy operations, minimize risks and that the offering of financial services is driven by organizations which have been licensed by it. Telcos are therefore restricted to the provision of telecoms network infrastructure for the use of mobile money operators (MMOs)[15] and Telcos are also permitted to operate as Payment Service Banks. In other countries in Sub-Saharan Africa, such as Kenya, Telcos have played an important role in broadening the reach of financial services through mobile money. M-PESA which is a phone -based money transfer, payment and micro-finance service accounts for 27 percent of the total revenue for Safaricom in Kenya. It also accounts for 99 percent of the mobile money market in Kenya. It gives individuals without bank accounts access to banking services using their mobile phones. This has helped reduce the number of unbanked people in Kenya to 18%.

14 Simona Varella "Transaction Volume of Mobile Money Operators in Nigeria 2016-2019" Statistica, April 26, 2021.
15 R. Akapo, G. Ogungbamide "Financial Inclusion in Nigeria: Mobile Money Services Payment Services, Banks and Telecoms Operations" International Bar Association, 2020.

Other Regulations

Other Regulations include: The Regulatory Framework for the Use of Unstructured Supplementary Service Data (USSD) for Financial Services in Nigeria and the Licensing Requirement for Payment Service Providers.

To promote an efficient and credible payments system in Nigeria, CBN issued the Guidelines for Licensing and Regulation of Payment Service Holding Companies in Nigeria, on 3rd August 2021.

To further drive financial inclusion in Nigeria, CBN released the Regulatory Framework for the Use of Unstructured Supplementary Service Data (USSD) for Financial Services in Nigeria. The regulation was released as CBN recognized that mobile phone had become a veritable tool for enhancing financial inclusion with the advent of mobile payments, mobile commerce, mobile banking, and other implementation for financial transactions based on mobile telephony. The providers of mobile based financial services have options of adopting varying technologies for enabling access and transmitting data including Short Messaging Service (SMS), Unstructured Supplementary Service Data (USSD), Interactive Voice Response (IVR) and Wireless Application Protocol (WAP), stand-alone mobile application clients and SIMM Tool-Kit (STK).

The Licensing Requirements for Payment Service Providers outline the licensing categorization and requirements for the Nigerian Payment Service Operation which include:

a. Switching and Processing Licence: which is a Payment/Transaction switch that routes transaction data to financial institutions or hosts and merchants for processing and approving electronic transactions upon receiving transaction requests from more than one interface like the ATM, POS, etc);

b. Mobile Money Licence: which is an electronic wallet service. MMOs allow customers to receive, store and expend money using a mobile phone;

c. Payment Solution Services: which provides bridging infrastructure, end-to-end electronic payment solutions, systems and services to stakeholders within the financial services space

d. Payment Terminal Service Provider: which is an entity licensed to deploy, maintain, and ensure the effectiveness of Point of Sale (POS) operations

e. Payment Solution Services Provider: which are companies that make up the underlying e-payment infrastructures in Nigeria.

f. Super Agent Licence: which is an entity licensed by the Central Bank of Nigeria and contracted by a financial service provider, that is empowered to conduct certain financial activities within a local community.

Lessons from advanced economies and other emerging and developing economies may be useful. In China, for example, third-party online payment systems, such as Alipay or WeChat, linked to bank accounts have enabled consumers to access their accounts efficiently using mobile devices. We have discovered that when countries take strategic approach and develop national financial inclusion strategies, it increases the pace and impact of financial reforms. Countries such as Indonesia, Mexico, Mozambique, Pakistan, Peru, Ghana have adopted various financial

inclusion strategies with the assistance of the World Bank to carry out country-led reforms to expand financial access and inclusion. Indonesia has undertaken financial reforms to develop the culture of savings, strengthen the existing credit guarantee scheme and community empowerment schemes, improve financial infrastructure and payment systems, increase access to insurance and enhance financial literacy.[16]

In seeking to reduce the financial exclusion rate, we must design strategies to promote the use of electronic payments, instead of cash and paper-based instruments. Government payments should be fully digitized. This will lower cost and reduce leakages related to corruption and fraud. Also, government is expected to support legal, regulatory and policy reforms and capacity building aimed at opening up access to a range of financial services including savings, insurance and credit. Lastly, it is imperative for regulators to support regulatory and supervisory reforms to open up and ensure level playing field for banks and non-banks (non-traditional financial service providers) such as telecoms companies and fintech companies.

Conclusion

Financial services need to be tailored to the needs of disadvantaged groups, such as women, low-income families, and first-timer users of financial services, who may lack literacy and numeracy skills. A well-developed payment system, good physical infrastructure, appropriate regulations, and strong consumer protection safeguards must be in place.

The right policies need to be adopted to close the inclusion gap and promote a competitive landscape. In the segment of the population with low education, multiple layers of proving identity to access formal financial services may be a deterrent to inclusion. Establishing a viable national identification framework and tiered Know Your Customer (KYC) regime to lower these barriers as well as mitigate the risks associated with extending services to informal and less documented customer segments, is important.[17]

Nigeria has taken some positive steps in achieving financial inclusion goals. The Mobile Money scheme and introduction of

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16 World Bank Group "UFA 2020: Universal Financial access by 2020"
17 Lagos Business School, State of the Market Report 2020 accessed on 4th April 2022

PSB will help drive the Central Bank of Nigeria's financial Inclusion objectives. We recommend that Central Bank of Nigeria place more emphasis on creating an enabling environment for the expansion of digital financial services which is a low-cost approach to reaching unserved and underserved customers. Also, there is the need to create an enabling environment to allow for the growth of agent network and the need to improve the adoption of cashless payment channels. This will create a mechanism that will drive banking penetration amongst the unserved and underserved. There is a need in the broader industry to develop more sophisticated and relevant products beyond the person-to-person payments. There are evident opportunities to develop digital banking, savings and credit products, as well as the digitization of value chain financing and merchant payments. This can significantly improve customer benefits and usage, as well as long-term sustainability for providers.

Building key digital infrastructure requires massive investment and as such there is a need for improved partnership between the government and the private sector in providing digital infrastructure for the unbanked population. Regulatory agencies should ensure that there is an enabling environment for the private sector in order to encourage the full participation of the private sector.

Lastly, as more household move from the use of physical cash to mobile money or e-wallets, filling the gaps in existing regulatory framework becomes increasingly important to contain potential social and financial stability risks. Regulatory framework needs to adapt to potential risks related to fintech, including cyber security risks, risk of misuse of new payment channels for illicit activities- money laundering and terrorists financing, as well as liquidity risks.[18]

18 P. Khera, S. Ng, S. Ogawa, R. Sahay "Is Digital Financial Inclusion Unlocking Growth" IMF Working Paper, June 2021

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Jackson, Etti & Edu is a full-service law firm with a sector focus, rendering legal services to Nigerian, Pan-African and International clients in diverse jurisdictions.

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