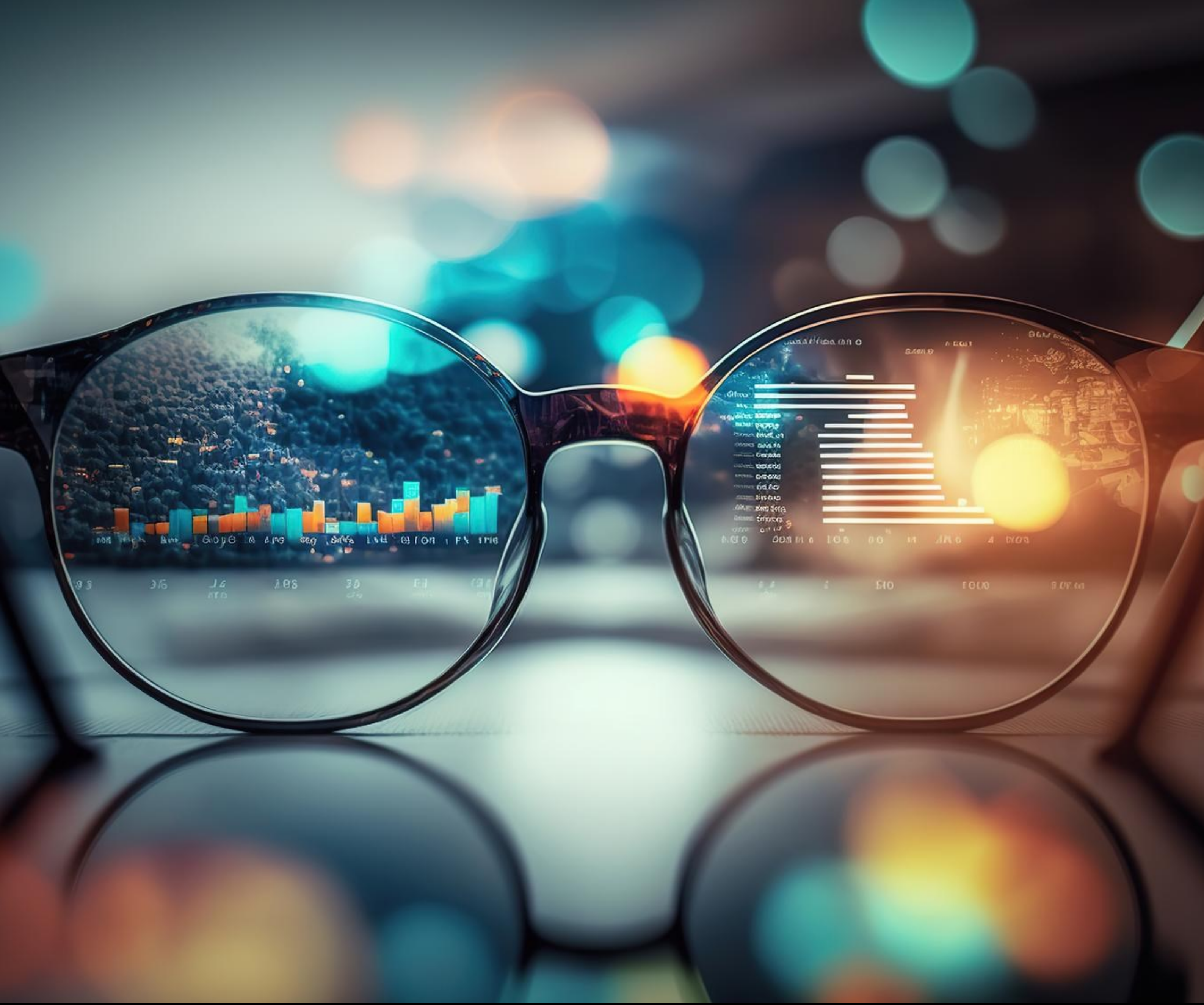

A Holistic Approach to Achieving Financial Inclusion in Nigeria

G. ELIAS

Introduction

Financial inclusion represents a fundamental pillar of economic development, ensuring that all segments of the population can access affordable formal financial services, including payments, credit, and savings products. This accessibility is particularly crucial for historically-excluded groups, particularly women and youths facing barriers due to gender, income levels, geographical location and literacy levels.[1] In Nigeria, the journey toward financial inclusion has been spearheaded by the Central Bank of Nigeria ("**CBN**") since 2008[2] when about 53% of Nigerian adults were financially excluded.[3] By 2010, active efforts by the CBN reduced the exclusion rate to 46.3%,[4] with the exclusion rate further declining to 26% by 2023.[5]

Financial inclusion also directly impacts security and national safety by providing vulnerable groups with legitimate means to generate livelihoods and escape poverty. This empowerment contributes to the national gross domestic product and reduces the incidence of crime and criminality.[6] Financial inclusion is a critical mechanism for translating the exponential economic growth potential of African countries into tangible improvements in living standards and sustainable poverty reduction.[7]

Despite the progress made by the CBN, the number of unbanked women and youths in Nigeria stood at 56.2 million in 2022,[8] indicating a need for more targeted and innovative approaches to ensuring financial inclusion. This paper examines the Nigerian financial ecosystem and the legal and regulatory framework in which it revolves, particularly as it affects women and youths. The paper also identifies the factors negatively impacting financial inclusion in Nigeria and makes recommendations on how they could be addressed.

The Regulatory Framework

In Nigeria, just like other economies, financial services are at the heart of lives and livelihoods. According to widespread informal reports, women, more than most other demographics, rely on informal financial services, as they have a higher propensity to save and own small shops to support their families far more than men do. A significant percentage of rural households have women as their families' economic providers,[9] thus requiring women to have access to formal financial services. Shockingly, most women lack access to formal financial services that allow for the easy receipt of foreign remittances from relatives and aid their resilience to the frequent shocks in Nigeria like debilitating inflation, health crises and crime. Furthermore, the informal financial sector is largely unregulated, leaving women and youths more vulnerable to exploitation and excessive costs.

The Nigerian formal financial services sector, on the other hand, operates primarily under the Banks and Other Financial Institutions Act, 2020 ("**BOFIA**"), with the CBN as the primary regulator.[10] No person may carry on the business of receiving deposits and rendering financial services without a licence issued by the CBN.[11] By 2010, the only recognised bank types were commercial banks, merchant banks and specialised banks, which included non-interest banks, microfinance banks,

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[1]Faye I, 'Introduction' in Thouraya Triki (ed), *Financial Inclusion in Africa* (African Development Bank Group 2013) <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and Operations/Financial_Inclusion_in_Africa.pdf> accessed 13 December 2024.

[2]Central Bank of Nigeria, 'Central Bank of Nigeria: Financial Inclusion' (*Financial Inclusion*) <https://www.cbn.gov.ng/FinInc/> accessed 13 December 2024.

[3] 'Access to Financial Services in Nigeria Survey - EFINA: Enhancing Financial Innovation and Access' (*EFInA*, 11 December 2024) <https://efina.org.ng/our-work/research/access/> accessed 13 December 2024.

[4] Central Bank of Nigeria (n 4).

[5] EFInA (n 5).

[6] Faye I (n 1).

[7] Ibid.

[8]Nkechika CG, 'Digital Financial Services and Financial Inclusion in Nigeria: Milestones and New Directions' (2022) Vol60EconomicandFinancialReview<https://dc.cbn.gov.ng/cgi/viewcontent.cgi?article=2089&context=efr#:~:text=By%20leveraging%20on%20technology%20and%20data%2C%20digital%20finance,insurance%2C%20savings%2C%20and%20retirement%20plans%2C%20amongst%20many%20others.> accessed 13 December 2024.

[9] Aluko OA and Mbada K, 'Rural Poverty Among Women in Nigeria' (2020) 22 Journal of Sustainable Development in Africa 82.

[10] BOFIA, s.29.

[11] BOFIA, s. 2(1).

development banks and mortgage banks.[12] However, recognising the need to drive financial inclusion, CBN issued several new licence types, including agent-banking, switching and processing, mobile-money, payment-solution-service and payment-service banking licences.[13]

The financial inclusion discourse cannot be complete without a discussion of digital financial services. By 2022, the smartphone penetration rate in Nigeria was 52% and is expected to reach 94% by 2030.[14] The CBN's establishment of the Nigeria Inter-Bank Settlement System Plc ("**NIBSS**") in 1993 marked a crucial step in modernizing the payment infrastructure.[15] NIBSS received a mandate from the Bankers Committee in 2006 to operate the Nigeria Central Switch ("**NCS**"), establishing a regime that integrates the retail payment system.[16] Furthermore, the CBN authorised the licensing of switching companies, mandating licensed switching companies to ensure interoperability between them and the NCS.[17] The CBN's establishment of NIBSS is commendable. Even more commendable is the licensing of private switching companies, which presents an avenue for competition and better financial technology services to consumers in Nigeria.

Three key initiatives specifically target financial inclusion: agent banking, payment service banks, and mobile money services.[18] The CBN Regulatory Framework for Mobile Money Services in Nigeria, 2021 (the "**Mobile-Money-Framework**") especially leverages the growth of mobile telephony in Nigeria for financially including the unbanked in Nigeria. The Mobile-Money-Framework identifies the bank-led model and the non-bank model to implement mobile-money services. In other African nations like Ghana, Uganda, and Tanzania, telecommunication companies ("**TeleCos**") lead mobile-money services, resulting in an increase of about 72% of mobile-money users in those countries.[19]

However, despite the slow financial inclusion growth rate in Nigeria, the CBN has taken a different approach to maintain complete regulatory oversight of financial services in Nigeria. TeleCos desirous of offering mobile-money services must incorporate a subsidiary licensed and regulated solely by the CBN. The mobile-money bank account-based service allows banks to leverage the infrastructure of TeleCos to have quick codes ("**USSD**").[20] The USSD allows mobile telephone owners to make payments swiftly, without internet connection unlike online bank applications.

Payment-service banking, on the other hand, focuses less on utilizing mobile financial services. Instead, its primary objective is physical spread and reaching rural areas and unbanked locations.[21] Commendably, payment-service banks are held to strict requirements and restrictions, including inability to grant loans, audit, anti-money laundering, and Know-Your-Customer requirements.[22] The strict requirements and restrictions imposed on payment-service banks are beneficial from a consumer protection point of view. Rural and unbanked areas are largely populated with illiterate individuals who can be easily exploited.[23] Thus, payment-service banking may benefit more from an express regulatory mandate on payment-service banks to ensure or at least be sensitive to the financial literacy of the consumers they service.

Agent banking licence allows existing banks and mobile money operators, in addition to their digital innovation efforts, to leverage a physical network to reach rural and unbanked areas without needing

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[12] CBN Regulation on the Scope of Banking Activities & Ancillary Matters, No. 3, 2010, s. 4.
[13] (*CBN Approved Licence Requirements*, 2021) <https://www.cbn.gov.ng/out/2021/ccd/approved new licence categorization requirements consolidated - 2021.pdf> accessed 15 December 2024.
[14] (*The Mobile Economy Sub-Saharan Africa 2023*, 2023) (pg. 15) <https://event-assets.gsma.com/pdf/20231017-GSMA-Mobile-Economy-Sub-Saharan-Africa-report.pdf> accessed 15 December 2024.
[15] CBN Guidelines on Transactions Switching in Nigeria, 2016, para. 4.1. (NIBSS is a central switching company owned by all licensed banks and discount houses in Nigeria, with the objective of providing digital automated settlement of payments between banks.)
[16] Ibid.
[17] CBN Guidelines on Transactions Switching in Nigeria, 2016.
[18] CBN (n 11).
[19] Nkechika CG (n 8).
[20] Unstructured Supplementary Service Data Codes.
[21] CBN's Supervisory Framework for Payment Service Banks, 2021, para. 1.0.
[22] CBN's Supervisory Framework for Payment Service Banks, 2021.
[23] (*Excluded or missing from education and child exploitation*) <https://tce.researchinpractice.org.uk/wp-content/uploads/2022/02/2757_TCE_Education__Exploitation_report_v2.pdf> accessed 16 December 2024

to open a branch, which can be tedious and expensive. Agent banking, not being a standalone service, requires a principal entity licensed by the CBN to conduct financial services and receive deposits.[24]

The CBN, as the primary Nigerian financial regulator, appears to be adopting a strategy that utilises both digital and physical channels to achieve financial inclusion in Nigeria. However, there are still some constraints to full financial inclusion in Nigeria.

Constraints

The barriers to comprehensive financial inclusion in Nigeria can be categorized into demand-side and supply-side constraints. Supply-side obstacles encompass high technology and operating costs, volatile business conditions, brain drain and inadequate public infrastructure.[25] The demand-side issues include diminished consumer confidence, due to persistent digital service disruptions and phishing fraud, complex identification requirements, and low financial literacy.

While the digitisation of financial services has demonstrated significant potential for advancing financial inclusion at scale through enhanced transparency, lowered costs, and increased efficiency,[26] service reliability remains a critical concern even in 2024. Although comprehensive official data is limited, widespread informal reports indicate frequent disruptions in online banking applications and mobile-network services, with outages lasting anywhere from 1 to 24 hours. A prime example is GTBank's (Nigeria's most profitable bank) seven-day online service disruption to its 32 million customers.[27]

Furthermore, consumer confidence is eroded by the prevalence of phishing fraud and data-security breaches.[28] In 2020, the number of online transactions conducted in Nigeria was recorded at 1,317,621,686, making online transactions 60.9% of the total number of transactions.[29] A majority of consumers in Nigeria place more reliance on digital payment methods than on traditional methods, and unreliable digital financial services only go to lower consumer confidence in financial services, thus affecting financial inclusion.

Financial literacy is a determinant of financial inclusion,[30] yet only 38% of Nigerian adults are financially literate.[31] Women constitute 75% of the rural population in Nigeria.[32] Women also constitute a larger part of the illiterate population,[33] making them unable to access formal financial services that require a level of financial literacy. Thus, women are unable to effectively support their households in their roles as economic and care providers, consequently affecting the country's larger economic growth.

In October 2014, the CBN issued the National Financial Literacy Framework (the "**NFLF**"), identifying an implementation plan of activities to be executed by different stakeholders in the financial sector in Nigeria, including sponsoring mass-enlightenment campaigns, convening financial literacy

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[24] Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria, 2013.
[25] Nkechika CG (n 8).
[26] Pazarbasioglu C, 'What Are Digital Financial Services and Why Do They Matter for the Poor', *Digital Financial Services* (World Bank Group 2020) <https://pubdocs.worldbank.org/en/230281588169110691/Digital-Financial-Services.pdf> accessed 2024.
[27] Oladunmade M, 'GTBank Apologises to Customers after Weeks-Long Disruption' (*TechCabal*, 28 November 2024). <https://techcabal.com/2024/11/27/gtbank-apologises-to-customers-after-weeks-long disruption/#:~:text=Guaranty%20Trust%20Bank%2C%20a%20Nigerian%20bank%20with%2032,that%20left%20customers%20unable%20to%20access%20their%20funds.> accessed 16 December 2024.
[28] Sulaimon A, 'Actress, Shan George Retrieves N3.6m Stolen from Her Account' (Punch Newspapers, 9 May 2024) <https://punchng.com/actress-shan-george-retrieves-n3-6m-stolen-from-her-account/> accessed 18 December 2024.
[29] 'Reports: National Bureau of Statistics' (*Reports | National Bureau of Statistics*) <https://www.nigerianstat.gov.ng/elibrary/read/1151> accessed 16 December 2024.
[30] David West PO and Adetunji DO, 'Financial Literacy Is a Stronger Determinant of Financial Inclusion' (*Lagos Business School 2024*).
[31] Joel T, 'Cowrywise Campus Ambassadors' Program: The Case for Financial Education in Nigeria's Tertiary Curriculum.' (*Cowrywise Blog*, 5 July 2024) <https://cowrywise.com/blog/financial-education-in-nigerias-tertiary-curriculum/#:~:text=According%20to%20the%20Central%20Bank,also%20the%20nation's%20economic%20progress.> accessed 16 December 2024.
[32] Anyanwu, J. C. 'Poverty of Nigerian Rural Women: Incidence, Determinants and Policy Implications' (1998) 17 Journal of Rural Development 65–67.
[33] Aluko OA (n 9).

conferences, developing web-based financial information portals, and establishing a financial literacy agency after 2017. However, the NFLF, being outdated, does not recognise the NCC and mobile network operators as key stakeholders to financial literacy in Nigeria, and there still is no agency charged with actively furthering financial literacy.

The absence of a robust consolidated government database further impedes financial inclusion progress in Nigeria.[34] Despite the establishment of a National Identity-Management Commission ("**NIMC**") in 2007 and the introduction of a Nigerian National ID Card on August 28, 2014,[35] the indications are that the adoption of the NIMC national ID card scheme has been poor.[36]

Recommendations

Addressing supply-side constraints requires fundamental structural improvements by the government, including a commitment to zero corruption, improved infrastructure and good electric power supply across the country. On the other hand, the demand-side constraint can be addressed with targeted regulatory interventions.

The CBN should consider issuing more specific consumer protection guidelines for financial institutions with clear punitive measures and enforcement mechanisms. Given that Nigeria's primary consumer protection agency[37] has no supervisory oversight over financial institutions in Nigeria,[38] the CBN should consider establishing a dedicated team to handle consumer protection issues arising from financial institutions' services, particularly digital financial services. Additionally, specific digital infrastructure regulation and enforcement framework could ensure adherence to strict technological standards and improve communication during service disruptions.

The role of the Nigerian Communications Commission ("**NCC**"), the apex regulator of the communications sector,[39] cannot be overstated. While the NCC has issued numerous regulations to ensure good standard of services by mobile-network operators,[40] continued mobile-network operator poor service indicates a lapse in enforcement of regulatory standards.

The CBN Customer Due Diligence Regulation 2023 (the "**CDD-Regulation**") expands the scope of customer-identification information that financial institutions must obtain from consumers.[41] The CDD-Regulation requires, among others, the authentication of telephone numbers, with validation against the NCC database, and varying levels of verification depending on the risks associated with a customer.[42] The CDD-Regulation's classification of consumers according to the risk that they pose is commendable. However, consumers are still required to provide financial institutions with a Bank Verification Number and Tax Identification Number and other information that might appear intrusive and excessive.[43]

It is understandable that the CDD-Regulation aligns with Nigeria's anti-money-laundering laws and is merely intended to supplement the existing legal framework to provide robust guidelines to ensuring customer due diligence.[44] However, the unbanked are typically low-income earners with limited

[34] Petrović, Nevena & Milic, Petar & Prlinčević, Bojan. (2022). Using Open Government Data for Economic Development. The European Journal of Applied Economics. 19. 129-141. 10.5937/EJAE19-39004.
[35] 'When Did NIN Registration Start in Nigeria?' (*Teachers Colleges J*, 2021) <https://teacherscollegesj.org/when-did-nin-registration-start-in-nigeria/> accessed 16 December 2024.
[36] Reporter O, 'Nin-SIM: Telcos Lose 64.3m Subscribers to Verification' (*The Nation Newspaper*, 30 October 2024) <https://thenationonlineng.net/nin-sim-telcos-lose-64-3m-subscribers-to-verification/> accessed 16 December 2024.
[37] Federal Competition and Consumer Protection Commission per the Federal Competition and Consumer Protection Act, 2018, ss. 3 and 17.
[38] BOFIA, s. 53.
[39] Nigerian Communications Act No. 19 2003, s. 3.
[40] Bello M, 'Regulations' (*Nigerian Communications Commission*) <https://www.ncc.gov.ng/licensing-regulation/legal/regulations> accessed 16 December 2024.
[41] Senbore Y and others, 'CBN (Customer Due Diligence) Regulations 2023: Overview and Potential Implications'.
[42] CDD Regulations para. 7 (2)(e).
[43] CDD Regulations para. 6 (a).
[44] Senbore Y and others (n 26).

identification or documentation and an aversion for complex requirements.[45] A robust and automated government database to which financial institutions have access will help avoid imposing complex identification requirements on financially-excluded consumers while allowing financial institutions maintain adequate customer due diligence.[46]

The NIMC national database should be improved upon and made accessible to financial institutions. On the flip side, deepening the digitised databases and making such databases more widely accessible raise data protection concerns,[47] which the CBN, as exclusive regulator, must be proactive against. Nationally, data protection in Nigeria is regulated by the Nigerian Data Protection Commission.[48] However, BOFIA is supreme over conflicting laws that regulate financial institutions' activities.[49] The CBN should establish a dedicated data protection team to combat data protection risks that arise with financial institutions, as they are likely to affect financial inclusion in the medium and long term. Additionally, the NFLF should recognise the NCC and mobile network operators as major stakeholders in the quest for mass financial literacy, given the high mobile telephones penetration rate in Nigeria.

Conclusion

The path to financial inclusion in Nigeria requires multi-faceted approaches that extend beyond traditional banking frameworks. Central to these approaches is that the CBN, as the primary financial regulator, must address persistent challenges in consumer protection, data security and digital infrastructure, while fostering collaboration with key stakeholders like the NCC and mobile-network operators. Financially including women and youths will depend on balancing regulatory oversight with innovation, simplifying identification requirements and enhancing financial literacy programs. Only through such coordinated efforts can Nigeria build an inclusive financial system that effectively serves all its population segments, contributing to broader economic and social progress.

[45] Nkechika CG (n 8).
[46] Pazarbasioglu C, 'What are the Binding Constraints that Policy-Makers can Address to Promote the Development and Growth of Digital Financial Services', *Digital Financial Services* (World Bank Group 2020) <https://pubdocs.worldbank.org/en/230281588169110691/Digital-Financial-Services.pdf> accessed 2024.
[47] Pazarbasioglu C (n 22).
[48] Nigerian Data Protection Act, 2023, ss. 4 – 6.
[49] BOFIA (n 25).

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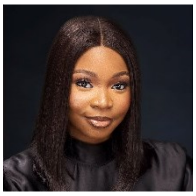

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