



Bank of Morocco – CEMLA – IFC Satellite Seminar at the ISI World Statistics Congress  
on “*Financial Inclusion*”

Marrakech, Morocco, 14 July 2017

Financial inclusion in Nigeria:  
the challenges of banks and mobile money operators  
(MMOs)<sup>1</sup>

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<sup>1</sup> This paper was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

# Financial inclusion in Nigeria: the challenges of banks & mobile money operators (MMOs)

Oluwaseun Odunayo Adesanya<sup>1</sup>

## Abstract

Financial inclusion has been a great challenge across the world, especially in Africa with great opportunities for financial services on the micro level. And to translate those opportunities into reality, there is need to create a realistic framework through regulations; an innovative approach that meets and surpassed market's expectation; and remuneration that encourage all stakeholders.

The greatest challenge starts with the definition that gives the wrong perspective on the un(der)banked population as if they are currently financial handicap. The trust is that everyone is currently undergoing financial transactions (in one way or the other) but the difference is that the recognized people (banked population – financially included) are only those who have relationship with the regulated financial players (such as the commercial banks, microfinance banks and mobile money operators).

Using Nigeria as a case study, this article is to highlight the critical areas that could facilitate the increase in financial inclusion to all stakeholders and to present the Importance and the implications of promoting financial inclusion for monetary policy and financial stability in terms of regulation of banking industry and payment systems.

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The organisation (SystemSpecs) is a software house with a focus on providing the most qualitative Human Capital Management and Financial software solutions. Founded in 1991, SystemSpecs has since emerged as a leading pan-Africa provider of e-Payment, Financial, and Human Capital Software Solutions for the Nigerian and African countries with over 250 people serving its clients across several countries including Benin, Ghana, Rwanda and Zimbabwe.

Remita, developed by SystemSpecs, is an e-Payments and e-Collections solution on a single multi-bank platform with an optional Payroll and HR solution for full integrated processing. It has significantly assisted to revolutionize the e-payment industry in Nigeria and process over US\$10 Billion worth of transactions on a monthly basis for Federal Government of Nigeria Single Treasury Account (TSA) and other clients.

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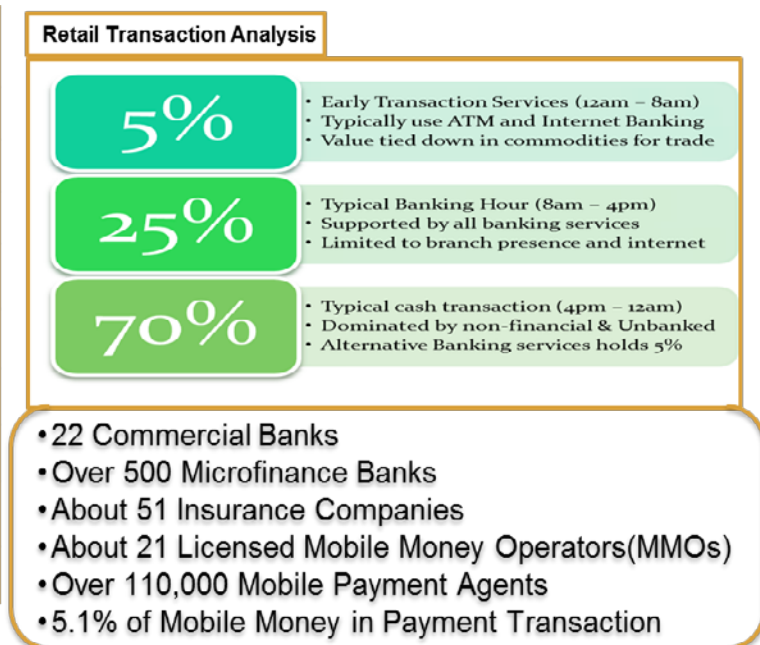
## Nigeria Demographic

Nigeria prides itself as the most populated and economic giant of the African continent with over 176million people yet 64% (of the adult population) currently un(der)banked! The financial sector also boasts of 22 commercial banks, over 400 microfinance banks and above 23 Mobile Money Operators who over the years, have been trying to tap into the market potential of the large un(der)banked population in the economy.

From findings, the current un(der)banked population control over 75% of daily retail transaction and it will surprise you that even the banked population are encouraging them through cash transactions because the economy has not transited from her traditional cash-based. The result is the increasing number of informal financial operators whose activities are not regulated but control high volume of liquidity which could have been used to create economic opportunities if it were in the hands of the formal financial institutions.

Population Distribution – Key Statistics	% of Total
Population, Total	162 million
Population ages 0-14 (% of total)	44.22%
Population ages 15-64 (% of total)	53.05%
Population ages 65 and above (% of total)	2.73%
Population, female (% of total)	49.1%
Population, Male (% of total)	50.9%
Population, Urban (% of total)	50.3%
Population, Rural (% of total)	49.7%
<b>Financially Excluded Population</b>	<b>41.6%</b>

Sources: United Nations, EFINA, World Bank



## Effort of Central Bank of Nigeria

The CBN in her regulatory capacity introduced several measures through policies, guidelines, licensing and facilitating workshops, researchers, and support towards bringing the un(der)banked into the mainstream. The activities of the regulator opened up opportunities for all the financial institutions to replicate the same success of stories across the world (such as Grameen Bank in Bangladesh and M-Pesa in Kenya) but it only resulted into the current situation of 64% un(der)banked population! Definitely, something is missing!

The various efforts (with even EFINA giving grants to those who can provide a solution to the problem) tell of the significant contribution such a population can generate in this economy that is greatly affected by global oil price which has impacted negatively on the financial sectors.

With the current macroeconomic challenges and uncertain outlook, the Retail space in Nigeria has great potential for deposit mobilization, engaging the underbanked, converting the unbanked, creating liquidity, driving cashless policy and promoting economic growth.

## Challenges to the Success of Financial Inclusion in Nigeria

There are several challenges identified that have created the gap and pose as unsurmountable mountain to financial inclusion in Nigeria. They include:

- **Misconception:** Generally, there is a believe that once it works anywhere else (including Kenya), it can work in Nigeria. But the reality is that the culture and economy ideology defer because Nigeria is still predominately cash based. Second, there is another believe that the rate of mobile users should directly result to mobile money subscriber but this, is another mistake because most of the people under the un(der) population are hostile to the wave of electronic financial transaction platform and still believe the "do-it-for-me" service! That is why the "esusu" and "ajoo" (informal financial providers) are strongly trusted and established!
- **Channel:** From the first point (above), it is clear that the prefer channel is not the corporate sit and take coffee approach but rugged style. The reality is similar to gold diggers and commodity trader, while the former dig to extract gold, the former only trade the available gold in the market without even touching it. The most appropriate channel for the un(der)banked is the combination of their trusted traditional method and technology!
- **Framework:** The Mobile Money Operations render financial services through their agents who currently sees such partnership as hindrance to its primary business, while on the commercial banks side, they use contract staffs (called Direct Sales Agent/Executives) to chase customers for deposits with possibility of great risks to bank and lack of comfort by the customers.
- **Compensation Model:** Most of the agent under the Mobile Money Operators and Direct Sales Agent/Executives of the commercial banks complained bitterly on the unattractive incentives from rending such service. Targets that are not backed with market intelligence and strategy for successful implementation!
- **Market Intelligence:** The situation in Nigeria is like asking the sight challenged person (such a blind man) to just run without any direction, assistance or guide! It may shock you that many of the financial institutions (including the Mobile Money Operators) do not even have sufficient market intelligence that can create access to the un(der)banked population. For Instance, in Lagos, many of them don't even know that there are 442 registered markets with potential of mobilizing over #30Billion deposit (turnover) within 9months!

## Moment of Truth

The above points are inconclusive of the current challenges to financial inclusion in Nigeria and your doubt can be cleared if any of the banks and Mobile Money Operators, who claimed to be the pacesetter in financial inclusion can provide analysis of active subscribers, volume and value of transaction, agency spread and profitability! (Trust me, it is just like the empty barrel that makes the loudest noise).

In conclusion, the solution is not far-fetched when the above challenges are thoroughly considered and experts' advice are consulted for success implementation to increase the percentage of financial inclusion in Nigeria within the next possible time!



Irving Fisher Committee on  
Central Bank Statistics

BANK FOR INTERNATIONAL SETTLEMENTS

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## Financial inclusion in Nigeria: the challenges of banks and mobile money operators (MMOs)<sup>1</sup>

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# Financial Inclusion in Nigeria:

The Challenges of Banks & Mobile Money  
Operators (MMOs)



# Introduction



Financial inclusion has been a great challenge across the world especially in Africa with great opportunities for financial services on the micro level.

To translate those opportunities to reality, there is need to create a realistic framework through regulations; innovative approach that meet and surpassed market's expectation; and remuneration that encourage all stakeholders.

# Objective



## Session:

To present the Importance and the implications of promoting financial inclusion for monetary policy and financial stability in terms of regulation of banking industry and payment systems.

## Presentation:

To highlight critical areas that could facilitate increase in financial inclusion to all stakeholders

# Nigeria as Case Study



Population Distribution – Key Statistics	% of Total
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Sources: United Nations, EFINA, World Bank

## Retail Transaction Analysis

5%

- Early Transaction Services (12am – 8am)
- Typically use ATM and Internet Banking
- Value tied down in commodities for trade

25%

- Typical Banking Hour (8am – 4pm)
- Supported by all banking services
- Limited to branch presence and internet

70%

- Typical cash transaction (4pm – 12am)
- Dominated by non-financial & Unbanked
- Alternative Banking services holds 5%

- 22 Commercial Banks
- Over 500 Microfinance Banks
- About 51 Insurance Companies
- About 21 Licensed Mobile Money Operators(MMOs)
- Over 110,000 Mobile Payment Agents
- 5.1% of Mobile Money in Payment Transaction

# PainPoints



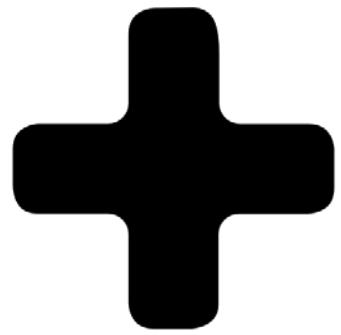
- ▶ **Misconception:** Generally, there is a believe that once it works anywhere else (including Kenya), it can work in Nigeria. But the reality is that the culture and economy ideology defer because Nigeria is still predominately cash based.
- ▶ **Channel:** The prefer channel is not the corporate sit and take coffee approach but rugged style. The most appropriate channel for the un(der)banked is the combination of their trusted traditional method and technology!
- ▶ **Framework:** MMOs render financial services through their agents who currently sees such partnership as hindrance to its primary business, while on the commercial banks side, they use contract staffs (called Direct Sales Agent/ Executives) to chase customers for deposits
- ▶ **Compensation Model:** Most of the agent under the Mobile Money Operators and Direct Sales Agent/ Executives of the commercial banks complained bitterly on the unattractive incentives from rending such service.
- ▶ **Market Intelligence:** The situation in Nigeria is like asking the sight challenged person (such a blind man) to just run without any direction, assistance or guide!

# Moment of Truth



The pain points are inconclusive of the current challenges to financial inclusion in Nigeria and your doubt can be cleared if any of the banks and Mobile Money Operators, who claimed to be the pacesetter in financial inclusion can provide analysis of active subscribers, volume and value of transaction, agency spread and profitability! (Trust me, it is just like the empty barrel that makes the loudest noise)

# Conclusion



**In conclusion, the solution is not far-fetched when the above challenges are thoroughly considered and experts' advice are consulted for success implementation to increase the percentage of financial inclusion in not just in Nigeria but anywhere in the world!**

THANKS!