Digital transformation and financial inclusion in Nigeria

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By: Ayobami Omisakin, DLA Piper Africa, Nigeria (Olajide Oyewole LLP)

The fintech industry is popular for its dynamic approach to delivery and relies on technological advances. Innovations such as blockchain, mobile payments and savings, peer-to-peer lending platforms, crowdfunding and similar internet-based solutions have radically transformed the financial services landscape in Nigeria, challenging its traditional business models and regulatory infrastructure. However, beyond the noteworthy advancements in this sector, a key concern is giving the country’s growing population access to these innovative solutions.

Financial inclusion

Financial inclusion, as defined by the World Bank, means that individuals and businesses have access to useful and affordable financial products and services that meet their needs (transactions, payments, savings, credit and insurance) delivered in a responsible and sustainable way. Indeed, the thrust of these innovative solutions is providing easy and quick access to financial services. But this is still elusive because of the realities faced in certain economies which have limited infrastructure and skills to support these innovative solutions. Undoubtedly, digital transformation remains at the heart of driving financial inclusion.

Financial inclusion has been identified as key in realizing 7 of the 17 Sustainable Development Goals. It is seen as a tool for economic development, particularly in the areas of poverty reduction, employment generation, wealth creation and improving welfare and general standard of living. As such, the importance of financial inclusion to a country like Nigeria cannot be over emphasized. Realizing this, on October 23, 2012, the Central Bank of Nigeria (CBN) launched the National Financial Inclusion Strategy. In 2018, the CBN issued a Revised Strategy aimed at further reducing the exclusion rate of the unbanked to 20% by 2020. Specifically, the aim was to increase the number of adult Nigerians with access to payment services from 21.6% in 2010 to 70% in 2020, while those with access to savings should increase from 24% to 60%, access to credit from 2% to 40%, access to insurance from 1% to 40% and access to pensions from 5% to 40% in the same period. Even though the nation was only able to achieve a 60% rate of financial inclusion at the end of 2020, stakeholders remain optimistic that if the government’s digital transformation policies are effectively driven, a much wider access to and use of financial services can be achieved.

Impact of digital transformation on financial inclusion

Digital transformation of the financial services industry facilitates increased broadband penetration, which promotes financial services delivery in rural areas, provides consumers with bespoke services (digital banking, mobile lending and savings), promotes access to credit for small and medium-sized enterprises (SMEs), leads to increased efficiency of traditional financial institutions and, more fundamentally, drives financial inclusion. The EFInA 2020 Report lists actions
that could lead to a higher number of people being included in the financial system and identifies the following as having the highest potential impact if well executed: innovation enablement, digital ID, credit infrastructure, digital infrastructure and technology talent pipeline. The report also highlights instances where fintechs are leveraging technology to address unmet customer needs in Nigeria:

- Using the data that smartphones provide, Bank Verification Numbers (BVN) and phone number verification to provide loans to customers and algorithms on the customer’s mobile transactions to determine credit risk.
- Mobile data and user experience (UX) have allowed fintechs to develop products and go to market directly, leveraging app stores as a distribution platform to reach over 23 million smartphone users.
- Increased access to micro loans for SMEs.

Digital onboarding is becoming easier as banks and fintechs invest in customer education and leverage agents for one-on-one guidance to drive financial inclusion.\(^5\)

**Nigeria’s digital transformation drive**

While digital transformation has been largely private sector driven, the Nigerian government also has a role to play and introduced initiatives to promote it. In a bid to achieve a digital economy, the government re-designated its Federal Ministry of Communications as the Federal Ministry of Communications and Digital Economy with a mandate to develop and implement a harmonized and well-coordinated digital economy policy and strategy. The ongoing data registration exercise for the National Identity Number is promising and could very well transform the financial services industry as it will provide a digital database for identification, easier onboarding process, access to micro loans and other financial services for the unbanked. Nigeria has also introduced a number of policies to promote digital transformation across the economy:

- The National ICT Policy\(^6\) aimed at increasing broadband penetration, empowering Nigerians to participate in software and IT development and building a mass pool of IT literate manpower.
- The Nigerian National Broadband Plan 2013-2018 through which a relatively low 30% broadband penetration was achieved.
- The Nigerian National Broadband Plan (2020-2025) which has led to increased broadband penetration from 35.1% in mid-2019 to 40.1% mid-2020 and to 45.43%\(^7\) as at November, 2020.
- Harmonization of Right of Way (RoW) charges across states leading to a 97% reduction or complete waiver of RoW charges, leading to increased broadband penetration.
- The Digital Economy Policy and Strategy (2020-2030)\(^8\) which aims at providing a plan for using digital technology as a platform for stimulating growth in all sectors of the economy through the development of a digital economy for the country.

The introduction of these policies conveys a message that the government is forward-looking and it is evident that there has been a considerable level of growth in technology. To deliver financial services at the last mile, however, there are still critical areas that need attending to, such as adequate infrastructure and internet penetration in rural areas. An effective implementation of these policies in the coming years will not only help the country arrive at a truly digital economy but also drive financial inclusion, facilitating access to financial services by the unbanked.

The CBN has implemented regulations to promote digital transformation and ultimately financial inclusion in Nigeria. Some of these interventions include:

- the establishment of a regulatory sandbox\(^9\) which allows live tests of new, innovative products, services, delivery channels, or business models in a controlled environment to ensure an enabling environment for innovation without compromising on consumer safety and the overall payments system;
- the downward review of the Merchant Service Charge\(^10\) 0.75-0.5% to increase accessibility to electronic payment solutions; and
- the introduction of agent banking\(^11\) and payment service banks\(^12\) which leverage technological solutions to provide easier and quicker access to banking solutions, and accelerate financial inclusion in rural areas.

Financial inclusion is a huge task and digital transformation is only one of the drivers for achieving this.\(^13\) There is also need for an extensive and continuous customer-centric approach to product development\(^14\) and an enabling regulatory landscape.
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3 National Financial Inclusion Strategy.cdr (cbn.gov.ng)
6 National-ICT-Policy11.pdf (nitda.gov.ng)
7 Broadband penetration hits 45.43% in Nigeria – Nigerian Investment Promotion Commission (nipc.gov.ng)
8 National-Digital-Economy-Policy-and-Strategy2.pdf (nitda.gov.ng)
9 Framework for regulatory sandbox operations.pdf (cbn.gov.ng)
10 Review of process for merchants collection on electronic transactions.pdf (cbn.gov.ng)
11 Guidelines For The Regulation Of Agent Banking And Agent Banking Relationships In Nigeria (cbn.gov.ng)
12 Approved Reviewed Guidelines For Licensing And Regulation Of Payment Service Banks In Nigeria-27AUG2020.pdf (cbn.gov.ng)
13 Prof. Yinka David-West, “Financial Inclusion Holds the Key to Transforming Poverty into Prosperity” Financial Inclusion Holds the Key to Transforming Poverty into Prosperity | Lagos Business School (lbs.edu.ng), accessed on 11 February 2021.