National Financial Inclusion Strategy

Summary Report

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1. Status Quo and Targets

1.1 Introduction to Financial Inclusion

The purpose of defining a Financial Inclusion (FI) strategy for Nigeria is to ensure that a clear agenda is set for increasing both access to and use of financial services within the defined timeline, i.e. by 2020.

Financial Inclusion is achieved when adults[1] have easy access to a broad range of financial products designed according to their needs and provided at affordable costs. These products include payments, savings, credit, insurance and pensions.

The definition of Financial Inclusion is based on:

1. Ease of access to financial products and services
   - Financial products must be within easy reach for all groups of people and should avoid onerous requirements, such as challenging KYC procedures
2. A broad range of financial products and services
   - Financial Inclusion implies access to a broad range of financial services including payments, savings, credit, insurance and pensions products
3. Designed according to need
   - Financial products must be designed according to target clients' needs and should consider income levels and access to distribution channels
4. Affordable cost
   - Formal financial services should be affordable even for low-income groups, particularly when compared to informal services, e.g. esusu or moneylenders

Despite being the most populous African nation, Nigeria is a mid-level player in the Sub-Saharan banking sector and lags behind some of its peers in Africa with respect to Financial Inclusion. The Central Bank of Nigeria, as the guardian of the financial system in Nigeria, has identified Financial Inclusion as a key lever to achieving the objectives under its mandate. As such, the CBN has set out to define a Financial Inclusion strategy that is executable and achievable.

Increasing Financial Inclusion will support the CBN in achieving its core mandates.

[1] Adults refer to persons of 18 years and above. Persons under the age of 18 (minors) require an adult to ratify legal contracts and cannot independently operate bank accounts. Including minors to Financial Inclusions will require amendments to existing laws in Nigeria

OBJECTIVES OF THE CBN	HOW FINANCIAL INCLUSION ADDRESSES CBN OBJECTIVES
▪ Ensure monetary and price stability	▪ The CBN will be better able to influence savings, investment and consumption behavior through interest and exchange rate changes, a direct result of increased participation of Nigerians in the formal financial sector
▪ Issue legal tender currency in Nigeria	▪ Increased penetration of e-payments use and cashless efforts will reduce the cost of cash management and thereby reduce the cost of issuing legal tender
▪ Maintain external reserves to safeguard the international value of the Naira	▪ Increased access to finance for (M)SMEs as a result of Financial Inclusion (credit made on the back of mobilized savings) will lead to greater productivity and increased non-oil exports – and subsequent demand for the Naira will stabilize its value
▪ Promote a sound financial system in Nigeria	▪ Financial Inclusion will lead to development of a stable financial system funded by non-volatile savings which are robust and provide cushion against external shocks
▪ Provide economic and financial advice to the Federal Government	▪ The CBN will be better able to advise the government as increased participation in formal finance will lead to greater visibility of the performance of the economy

The mandate of the Central Bank of Nigeria (CBN) is derived from the 1958 Act of Parliament, as amended in 1991, 1993, 1997, 1998, 1999 and 2007

The purpose of defining a Financial Inclusion strategy for Nigeria is to:

- Ensure that a clear agenda is set for significantly increasing both access to and use of financial services by 2020
- Ensure that the concerns and inputs of all stakeholders are considered before regulations and policies are set for Financial Inclusion in Nigeria
- Outline the framework for increasing the formal use of financial services to 70%[2] from the current level of 36%[3] of the adult population

The strategic approach is to determine the current situation with regard to Financial Inclusion in Nigeria as a foundation on which to base the Financial Inclusion strategy. This involves:

- Establishing a clear understanding of the current state of Financial Inclusion in Nigeria, including the status of ongoing initiatives
- Quantifying the gap and identifying barriers to Financial Inclusion
- Developing targets for Financial Inclusion in 2020
- Proposing business and operating models for achieving Financial Inclusion targets
- Identifying stakeholders and defining their roles in implementing the strategy
- Establishing CBN as the project manager for the Financial Inclusion strategy
- Outlining an implementation plan with clear milestones and timelines

[2] 70% refers to the penetration of payment products for the adult population

[3] EFInA Access to Financial Services in Nigeria 2010

1.2 Current State of Financial Inclusion in Nigeria

0.0.1 Gaps and Barriers

With regards to the provision of financial services, Nigeria lags behind many African countries. In 2010, 36[4]% of adults – roughly 31 million out of an adult population of 85 million – were served by formal financial services. This figure compares to 68% in South Africa and 41% in Kenya[5].

Four distinct segments are identified with regards to Financial Inclusion:

- "Formally banked" – adults who have access to or use financial services supplied by deposit money banks
- "Formal other" – adults who have access to or use formal financial institutions and financial products not supplied by deposit money banks
- "Informal only" – adults who do not have access to or use any bank or other formal financial services products but have access to or use informal services and products such as cooperatives
- "Completely excluded" – adults without formal or informal financial products

Between 2008 and 2010, the percentage of "completely excluded" fell from 53% to 46% and "informal only" fell from 24% to 17%6. At the same time, "formal other" doubled from 3% to 6% and "formally banked" rose from 21% to 30%7. Given an enabling environment, this trend can be further encouraged.

The EFInA Access to Financial Services in Nigeria 2010 survey identifies five major barriers to Financial Inclusion: income, physical access, financial literacy, affordability and eligibility.

4 EFInA Access to Financial Services in Nigeria 2010

5 EFInA Access to Financial Services in Nigeria 2010

6 EFInA Access to Financial Services in Nigeria 2008, 2010

7 EFInA Access to Financial Services in Nigeria 2008, 2010

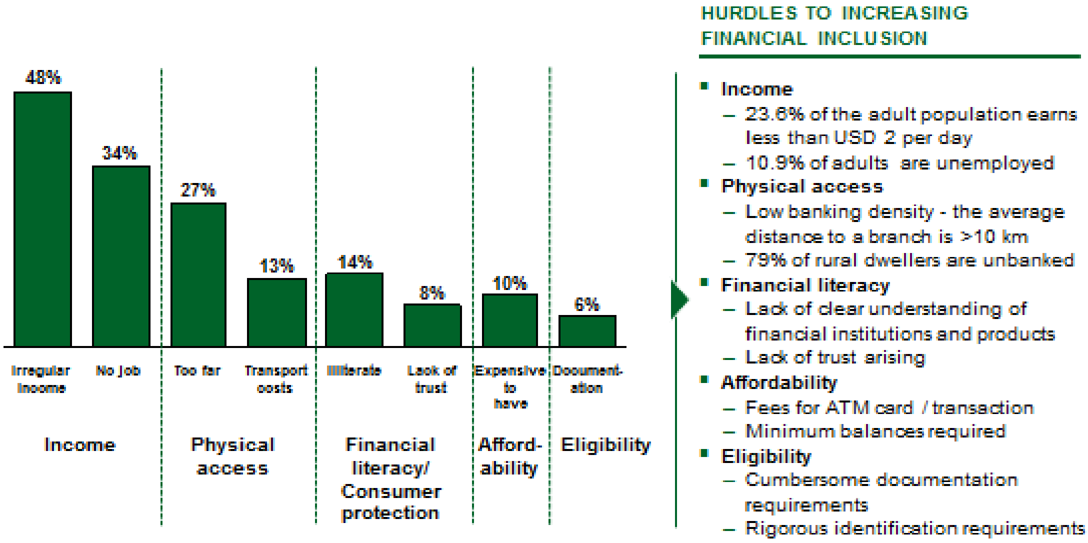

Figure 1: Reason for not having an account [% unbanked]

0.0.2 Financial Sector Infrastructure

The existing banking infrastructure has the capacity to serve as a basis for expanding Financial Inclusion. As of December 2010, Nigeria has combined total of 5,797 bank branches, 9,958 ATMs and 11,223 POS terminals. Although the banked population has grown faster than the bank branch network, the infrastructure is operating below its potential and has the capacity to serve more clients – the average number of clients per branch is 3,882, compared to 3,922 in Kenya and 8,595 in Tanzania. To reach best-in-class levels, the average branch should serve more than double the number of clients it serves today.

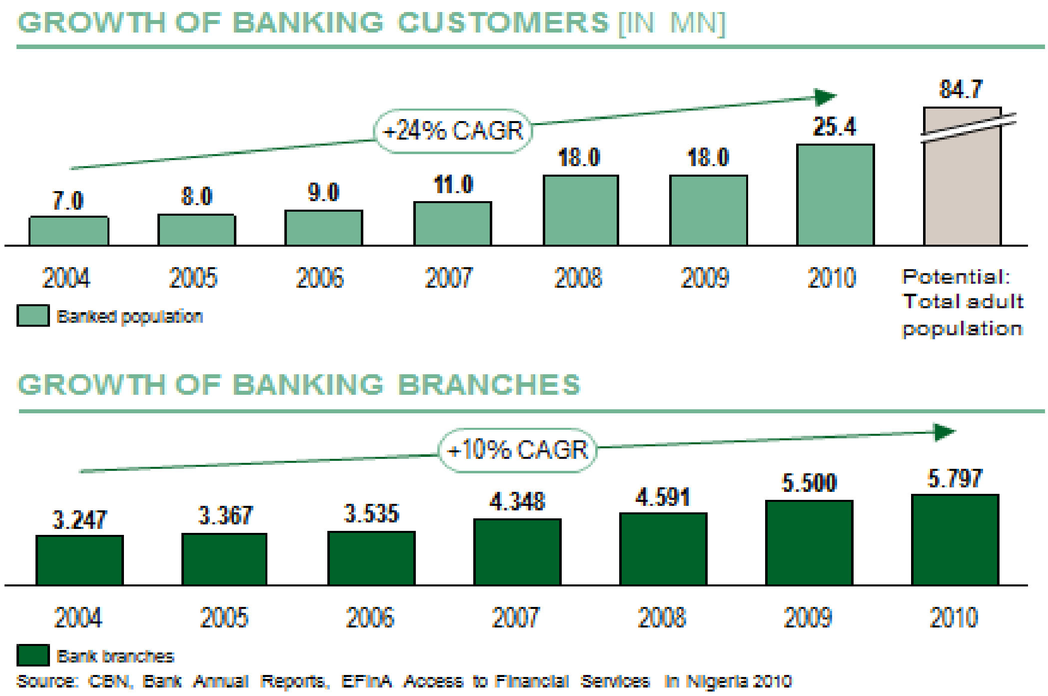

Figure 2: Banking customers and branch infrastructure

0.0.3 Stakeholders in Financial Inclusion

The stakeholders in improving Financial Inclusion, as defined by FSS 2020, are as follows: banks, other financial institutions, insurance, regulators, technology/telecommunications firms, public institutions and development partners/experts:

i. *Banks* – This includes deposit money banks, primary mortgage institutions and microfinance banks. There are currently 21 commercial banks serving approximately 20 million people and 866 microfinance banks serving approximately 3.2 million people
ii. *Other financial institutions* – This comprises discount houses, finance companies, pension fund administrators and development finance institutions, such as the Bank of Agriculture, Bank of Industry, NEXIM and Federal Mortgage Bank of Nigeria
iii. *Insurance* – This includes insurance companies, loss adjusters and insurance agents. The provision and uptake of insurance services remains low despite the enormous exposure to risk for the low-income and mass-market population
iv. *Regulators* – This category comprises the Central Bank of Nigeria, Nigerian Deposit Insurance Corporation, National Insurance Commission, National Pension Commission, National Identity Management Commission, and Nigeria Communications Commission
v. *Technology/telecommunications firms* – This includes settlement providers, ATM service providers, mobile service providers and e-payment/e-channel operators. Overcoming the geographical gap through low-cost delivery channels such as mobile devices is a prerequisite for increasing the use of financial services by low-income and geographically distant people
vi. *Public institutions* – This category includes the Federal Ministries of Agriculture, Finance, Education, Trade and Investment, as well as government agencies and programmes

such as SMEDAN, NAPEP and RUFIN. It also includes NIPOST and the National Planning Commission

vii. *Development partners and experts* – This category includes international finance agencies, donor institutions, development partners, technical experts and advisers. This group is well positioned to provide technical and international support to government and institutions

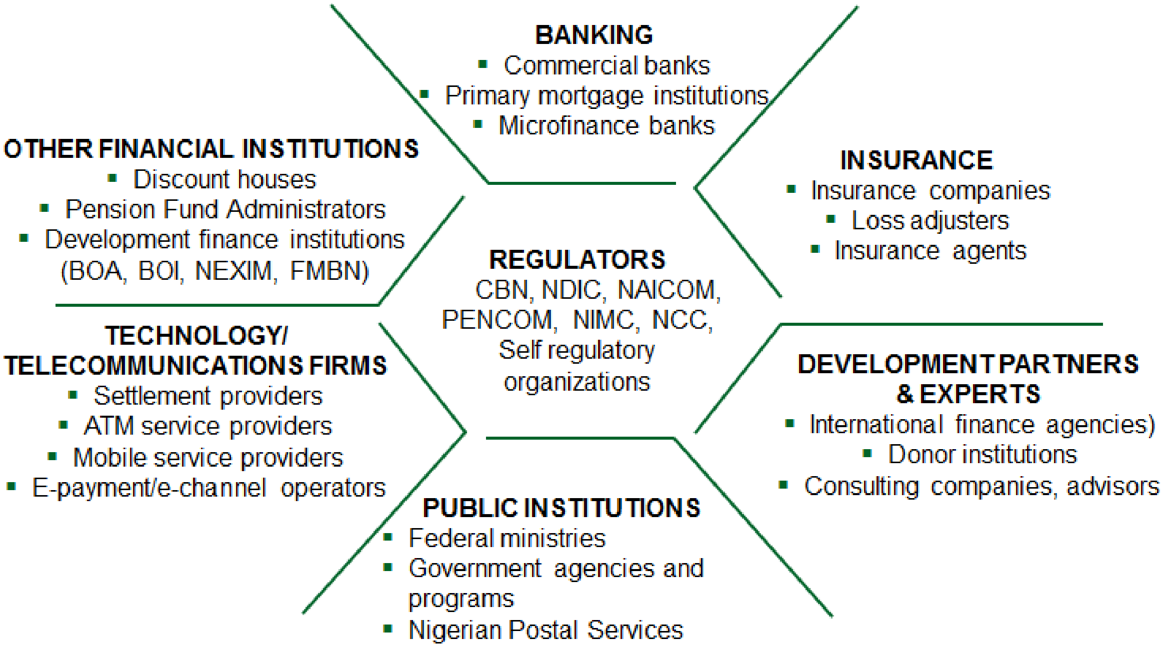

Figure 3: Financial Inclusion stakeholders

Commercial Banks

Following the 2009 financial crisis and CBN intervention, the sector has undergone consolidation, with three banks being acquired by existing local players and a further three nationalised by the Asset Management Corporation of Nigeria (AMCON), resulting in a total of 21 commercial banks as of September 2011.

Between 2006 and 2011, total assets grew by 29% and deposits by 35%. High-cost branch distribution channels largely drove this growth. This has increased the focus on comparatively low-cost, branchless banking channels. As a strategy for increasingly moving customers away from typically congested branches and towards lower-cost channels, most commercial banks have implemented a minimum amount for over-the-counter (OTC) withdrawals; customers who fall below the threshold are thereby incentivised to use self-service e-channels.

CBN has developed a mobile payments framework which incorporates three options: bank-led, bank-focused and non-bank-led models. A total of 11 provisional mobile payments licences have been awarded, including three banks, namely UBA, GT Bank and Stanbic IBTC.

Commercial banks, while not operating at their optimum, are best placed to drive Financial Inclusion due to their large network and capital base.

Microfinance Banks

As of July 2011, Nigeria had 866[8] microfinance banks (MFBs), the majority of which were formerly community banks and are now single branch institutions. Only 82 MFBs service the North-West and North-East geopolitical zones combined – the regions with the highest unbanked rate – compared to over 500 in the South-West and South-East geopolitical zones. The MFB network serves 3.8%[9] of the adult population (3.2 million clients). Of the 3.2 million MFB clients, 65% use savings products, 14% use credit products and 4% have an ATM card.

The biggest challenges for MFBs are the high refinancing costs compounded by a low focus on deposits, high operating expenses and low staff capacity, leading to poor asset portfolios. As such, the vast majority of MFBs lack the scale and operating capacity to have a strong impact on Financial Inclusion.

Development Finance Institutions

Development Finance Institutions (DFIs) channel the public sector's access to financial initiatives for M/SMEs. Unfortunately, while DFIs run multiple interventions, client outreach is limited.

The Bank of Agriculture (BoA) serves 1.9 million clients – mainly farmers, entrepreneurs and women's groups – including 700,000 M/SME clients with loans provided at 8% p.a. The BoA has developed rural branch networks encouraging cooperative societies and self-help groups. However, the BoA has been a loss-making institution largely due to capital depletion from OpEx and lean losses.

The Bank of Industry (BoI) targets SMEs across all sectors with loan rates capped at 10%. Major interventions by BoI include the NGN 5 billion Small Business Development Fund, the USD 4 million Access to Renewable Energy Project and the NGN 3 billion MSME Development Fund. Revenue growth has been limited by its small asset portfolio but the bank is profit-making, achieving NGN 2.6 billion in 2010[10].

Microfinance Institutions

Non-bank microfinance institutions (MFIs), which include financial NGOs, financial cooperatives, self-help groups, trade associations and credit unions, are not regulated by the Central Bank of Nigeria. However, the CBN Development Finance Department works with MFIs through linkage programmes such as RUFIN[11]. Today, 671 MFIs are registered with CBN, serving 346,266 clients. A report on the results of MFI activity is expected to be completed by the end of 2012.

[8] Central Bank of Nigeria

[9] EFInA Access to Financial Services in Nigeria 2010

[10] Bank of Industry

[11] Rural Finance Institutions Building Programme

Insurance

The recapitalisation exercise of 2007 led to an increasingly consolidated industry with 49[12] insurance companies. However, as of December 2010, the insurance sector as a whole serves only 1%[13] of the population. Regulation made motor vehicle[14] and group life insurance[15] compulsory as of December 2010. Vehicle insurance has the highest penetration with 470,000[16] policies, followed by life insurance with 173,000 policies. Retail insurance has not been introduced on a significant scale as so far: the industry has focused primarily on corporate insurance products.

The insurance sector is plagued by low awareness and understanding, low premium collection and limited trust in insurance companies. As such, while insurance is a critical aspect of Financial Inclusion, the insurance sector does not currently offer appropriate solutions to the most important life and property risks faced by Nigerians today.

Pensions

The 2004 Pension Reform Act established the Compulsory Pensions Scheme (CPS), which has been largely adopted by the federal government and private sector. Annual pension contributions grew from NGN 60 billion in 2006 to NGN 2009 billion in 2010[17]. However, only 17 of the 36 state governments have passed bills to adopt and implemented the CPS.

The current pension system makes allowances for voluntary contributions but does not specifically cater to the partial and informal employment sectors in Nigeria. Further to this, PenCom has been challenged with enforcing some critical enablers to a robust pension industry, such as penalties for non-remittance or late remittance of contributions by employers and for late regulatory reporting by pension fund administrators (PFAs).

Although the pensions industry in Nigeria has shown a promising start, intervention is needed for it to realise its potential – which is significant – and cater to a wider segment of the Nigerian population.

Technology and Telecommunications Firms

There are 9 mobile network operators (MNOs) in Nigeria. MTN, Globacom and Airtel lead the market, with a combined market share of approximately 85%. The payments processing segment is operated by four companies, namely Interswitch, Valuecard, Cams and eTranzact. Between 2006 and 2010, the sector witnessed 38%[18] CAGR in the total number of subscribers

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[12] National Insurance Commission (NAICOM)

[13] EFInA Access to Financial Services in Nigeria 2010

[14] Insurance Act 2003

[15] Pension Reform Act 2004

[16] Vetiva Research

[17] National Pension Commission (PenCom)

[18] Nigerian Communication Commission (NCC)

and 27%[19] CAGR in tele-density. However, under the 2009 Regulatory Framework for Mobile Payments Services in Nigeria, telcos are excluded from obtaining mobile payment licences.

The CBN has issued 11 provisional licences for mobile payments, to Eartholeum, Ecobank, eTranzact, FET, Fortis Mobile Money, GTBank Mobile Money, M-Kudi, Monitise, Pagatech, Paycom and UBA/Afripay. Full licences are to be granted pending the rectifying of certain problems encountered during the pilot phase. A further 8 operators have been issued approvals in principle to carry out pilot programmes. The full launch of m-payments is expected to commence by December 2011.

Mobile payments are expected to be a "game changer" for Financial Inclusion. While telcos are excluded from obtaining licences, they have partnered with m-payment operators to provide payment services. This collaboration will play a critical role in the success of mobile payments.

Public Institutions

SMEDAN[20] supports access to knowledge and markets for M/SMEs and has reached approximately 200,000 M/SMEs as of 2011. However, it has faced challenges in providing access to finance for its beneficiaries and has not been able to develop a link for M/SMEs to leverage external sources in accessing funding.

The National Identity Management Commission (NIMC) aims to launch a national ID programme targeted at providing documentation and a unique ID number to approximately 100 million Nigerians within 30 months. Pilots kicked off in October 2011 and a full-scale registration for IDs is expected to commence in Q1 2012.

The Nigerian Postal Service (NIPOST) provides very limited financial services through its wide network of agents and branches. It currently underperforms due to low employee productivity, a lack of employee incentives, poor infrastructure and limited use of technology – at present, NIPOST has no institution-wide IT network.

Although the role of public institutions in Financial Inclusion is critical, there is a lack of synergies between the various public institutions with regards to Financial Inclusion-related activities.

Development Partners

Various development partners support Financial Inclusion initiatives:

- The Department for International Development (DFID) has partnered with EFInA as the primary vehicle for activities in retail banking. Additional activities of the DFID include risk-sharing agreements with selected partners for agricultural and SME schemes, and advocacy for non-interest banking
- The International Financial Corporation (IFC) is committed to Financial Inclusion through its advisory arm (Access to Finance) as well as to long-term financing to improve its reach to SMEs and underserved segments
- The GIZ Employment-oriented Private Sector Development (EoPSD) Access to Finance Component aims to improve the capacity of financial institutions through technical

[19] Nigerian Communication Commission (NCC)

[20] The Small and Medium Enterprises Development Agency of Nigeria

assistance. As part of this programme, GIZ intends to assist FSS 2020 in providing training and awareness for human capacity-building, enhancing consumer protection and financial literacy

- The African Development Bank (AfDB) has provided credit lines and/or equity investments to several Nigerian banks, including Access Bank, Zenith Bank, UBA and Intercontinental Bank, in order to deepen financial intermediation
- The Alliance for Financial Inclusion supports financial sector development in Nigeria by providing funding and knowledge exchange through the Central Bank of Nigeria
- The Ford Foundation supports small rural and urban enterprise development as well as research and policy advocacy for new financial products targeted at the Northern and South-Western regions of Nigeria
- EFInA is a non-governmental organisation that promotes access to financial services for the unbanked as well as financial sector development

For the purpose of the Financial Inclusion strategy, these 7 stakeholders have been further categorised into providers, enablers or supporters:

Providers – Institutions that provide financial products and services, and their partner infrastructure and technology providers. Providers include banks, other financial intuitions, insurance firms and technology/telecommunications firms.

Enablers – Institutions responsible for setting regulations and policies with regards to Financial Inclusion, including regulators and public institutions.

Supporters – Institutions that can provide technical and funding assistance that enhance Financial Inclusion and support the CBN in achieving its Financial Inclusion goals. Supporters include development partners and experts.

The current situation of stakeholders has been assessed in order to develop a baseline for Financial Inclusion.

0.0.4 Regulation and Policy Analysis

Current regulation and policy in the financial sector focuses strongly on the stability of the sector. No specific regulation or policy exists with regards to Financial Inclusion; of the regulations and policies that impact on Financial Inclusion, many focus on distribution channels and none is specific to retail agent banking. A review of initiatives that have come into effect due to regulation and policy on increasing access to finance reveals that monitoring and impact assessments are inadequate. It has therefore been difficult to fully assess the impact of these on Financial Inclusion within the timeframe of this project.

Globally, one catalyst to Financial Inclusion has been saving mobilisation policies and programmes. However, in Nigeria, most intervention programmes by the CBN are geared towards credit enhancement. Despite focused investment in credit schemes and policies, the impact of these schemes appears to be limited when compared to the scale of financial exclusion in Nigeria.

The impact of these regulations and policies has been analysed with regard to the following factors:

- Distribution channel
- Financial services product
- Financial literacy
- Consumer protection

A total of 48 regulations and policies with some impact on Financial Inclusion were analysed. These were sourced from the following institutions (see the Appendix for full list of the regulations analysed):

- Central Bank of Nigeria (CBN)
  - Development Finance Department (DFD)
  - Banking and Payment Systems Department (BPSD)
  - Banking Supervision Department (BSD)
  - Other Financial Institutions Supervision Department (OFISD)
  - Strategy and Performance Department (SPD)
- National Identity Management Commission (NIMC)
- Consumer Protection Council (CPC)
- National Insurance Commission (NAICOM)
- National Pension Commission (PenCom)
- Securities and Exchange Commission (SEC)
- Nigerian Postal Services (NIPOST)
- Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)
- National Poverty Eradication Programme (NAPEP)

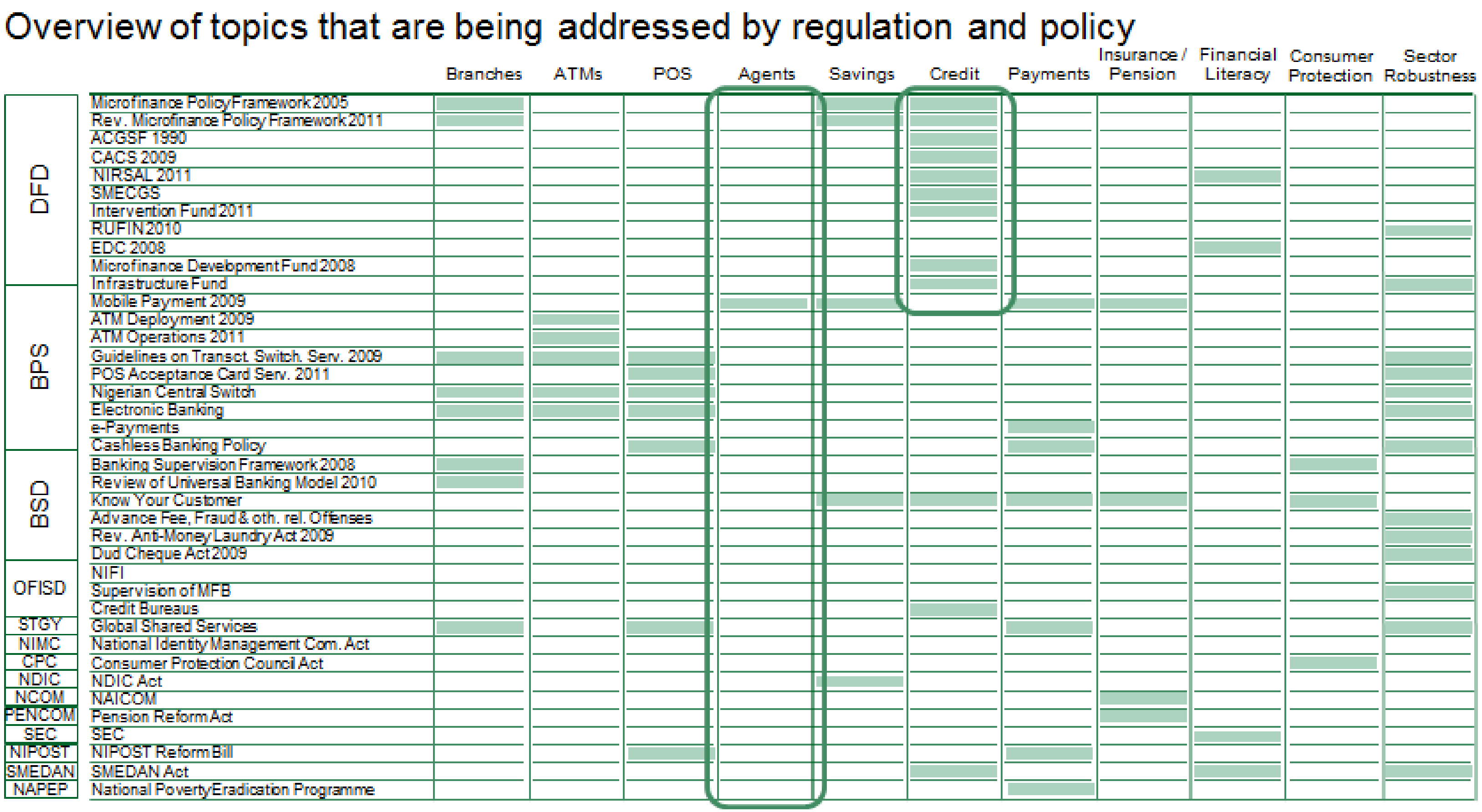


Figure 4: Overview of regulations with an impact on financial inclusion

Overview of policy outreach

		Funding & Guarantee volume	Form of intervention	Financial Institutions affected	Characteristics of beneficiaries	Number of beneficiaries	Available information on impact
Agriculture	ACGSF 1978	3 bn	75 % guarantee for agricultural loans	DMBs / MFBs	Small scale farmers	740,056 farmers N 49,77 bn value	...
Agriculture	CACS 2009	200 bn	refinance for commercial agriculture at 9 %	DMBs 26 bn disbursed	commercial farms with assets > N 350 mn & small scale farmers	177 beneficiaries 137.32 bn	12,506 jobs as of June 2011
Agriculture	NIRSAL 2011	75 bn	Risk-sharing / insurance / technical assistance / ratings / incentives	...	...	...	...
SME	SMECGS	200 bn	80 % guarantee for SME loans	DMBs DFIs	SMEs	1606 loans N 922 mn disbursed	...
SME	Intervention Fund 2011	200 bn	Refinancing of existing SME loans	yes	SMEs	539 businesses	13,989 new jobs
MFI	RUFIN 2010	USD m 27,6	Technical assistance, capacity building, facilitating refinance	2,716	Grassroots MFIs / Cooperatives / NGOs	...	...
	EDC 2008	~ 6 bn	Establishing of Entrepreneurial Development Centers	MFBs, BoI, DBMs	Entrepreneurs (Sec. School, unemployed grads)	> 120,000	> 4,000 trainees accessed loans
MFBs	Microfinance Development Fund 2008	50 bn	Refinancing	MDF is yet to be funded and as such is unavailable to the sector			
	Infrastructure Fund	300 bn	Refinancing	Fund finances airlines, energy and financial sector – no funds have been disbursed to financial sector.			

Figure 5: Overview of policies with an impact on financial inclusion

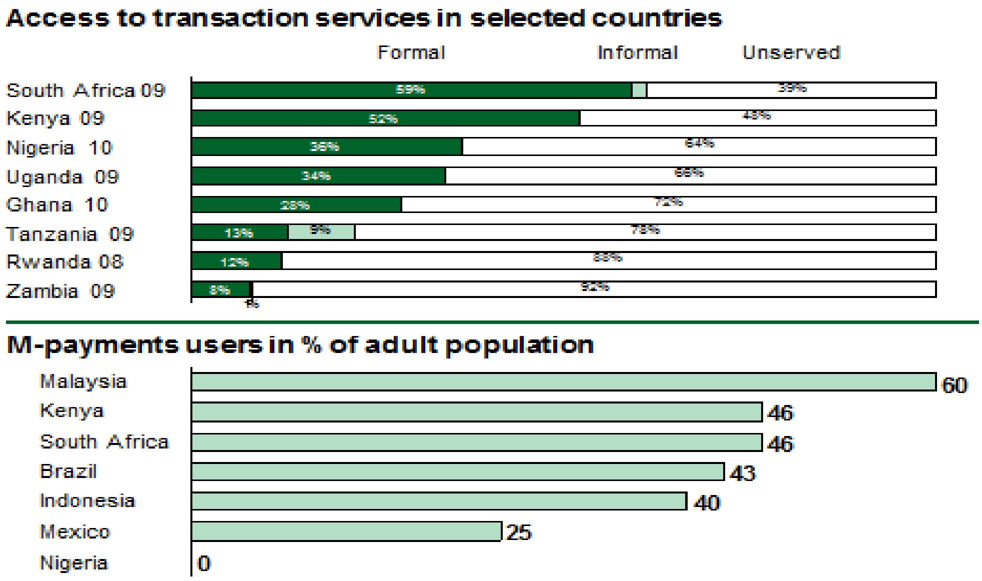
1.3 International Benchmarking of Financial Inclusion

Globally, Financial Inclusion is a mainstream topic. Many countries have taken action to increase the access to and use of financial services. Indeed, some countries have made significant progress here, such as Malaysia and Brazil.

As there is no global benchmark for Financial Inclusion, the benchmarking presented here is divided along product, channel and client lines. To select the benchmark countries, two best-in-class countries for each product were identified from among emerging markets. In addition, where data was available, three anchor countries were included: Indonesia (as a top 20 world economy), Kenya and South Africa (both peers for financial development in Sub-Saharan Africa).

1.3.1 Products

Payments – Nigeria has 36%[21] formal payments penetration. It thus lags behind South Africa (59%) and Kenya (52%). Despite the high penetration of mobile phones in Nigeria, the use of mobile banking is yet to gain equivalent momentum. This is underscored by the fact that mobile payment in Nigeria is relatively new and yet to achieve mainstream status.

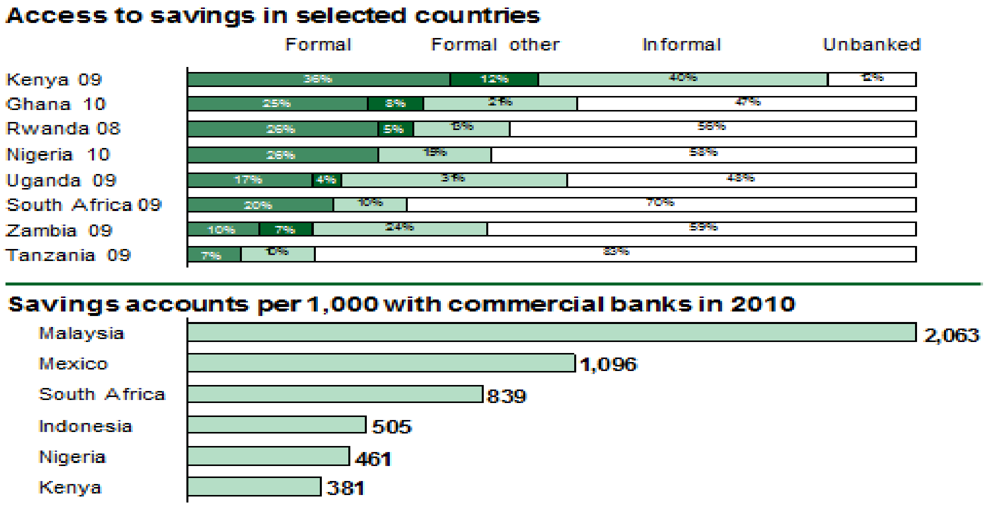


Source: WorldBank / CGAP, FinScope, EFInA Access to Financial Services in Nigeria 2010 survey, GSMA

Figure 6: Access to transaction services in selected countries

Savings – Nigeria is a midfield player in Africa in terms of access to formal savings products. However, compared to Malaysia – the best in class – Nigeria still has a long way to go: Malaysia has 2,063 savings accounts per 1,000 people, Nigeria just 461.

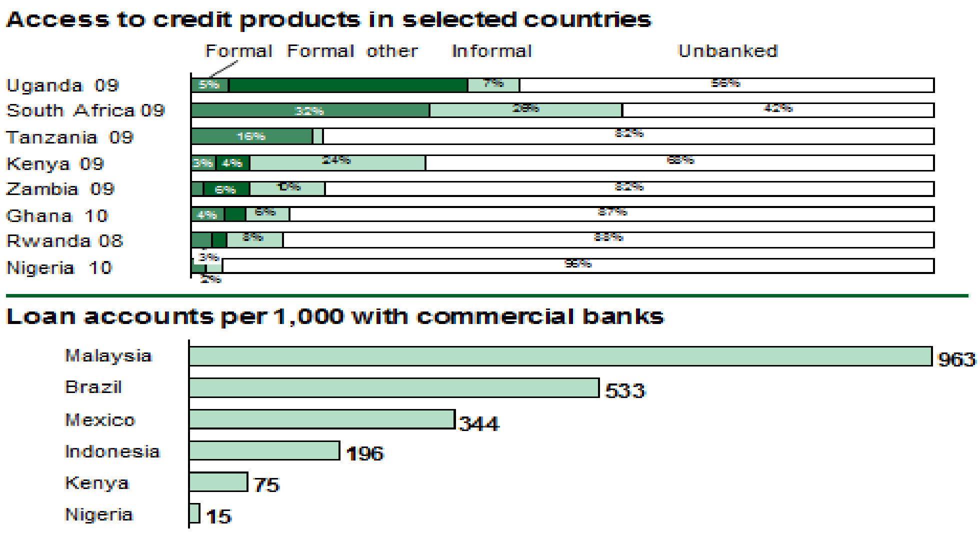
[21] EFInA Access to Financial Services in Nigeria 2010



Source: WorldBank / CGAP, FinScope, EFInA Access to Finance in Nigeria 2010 survey

Figure 7: Access to savings in selected countries

Credit – Nigeria has very low credit penetration, with only 2%[22] access to formal products. This compares to 16% in Tanzania and 32% in South Africa. With its 15 loan accounts at commercial banks per 1,000 people, Nigeria pales in comparison with Malaysia, which has 963 loan accounts per 1,000 people.

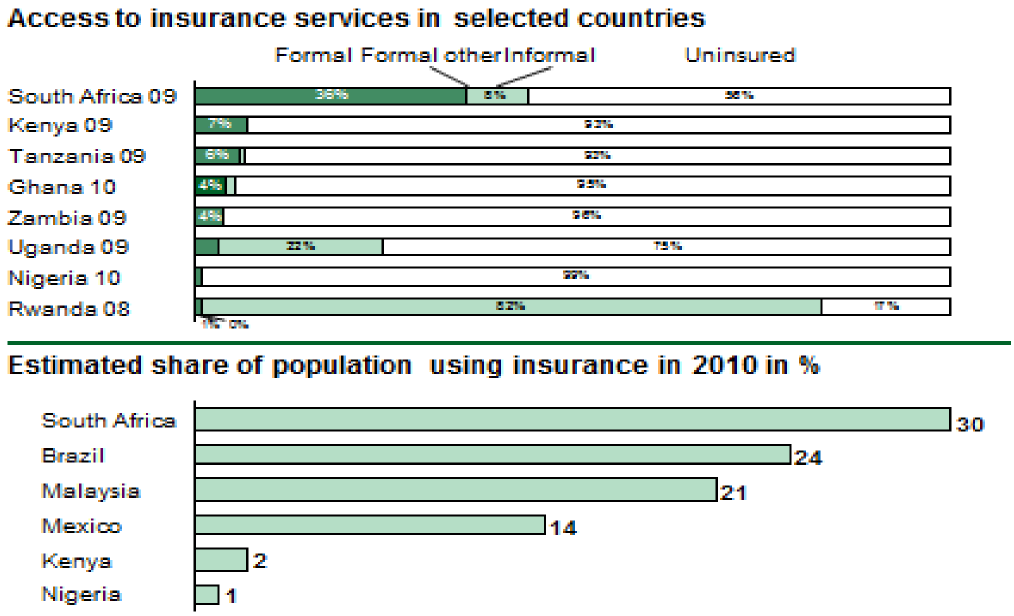


Source: WorldBank / CGAP, FinScope, EFInA, Access to Finance in Nigeria 2010 survey CBN

Figure 8: Access to credit products in selected countries

[22] EFInA Access to Financial Services in Nigeria 2010

Insurance – Outside of South Africa, where insurance penetration is 30%, insurance penetration in Africa is relatively low. However, Nigeria's insurance sector performs poorly even compared to its African peers, with just 1% penetration. Poor insurance literacy and a lack of trust are considered the major factors keeping the use of insurance in Nigeria low. Significant intervention is required in order to reverse the current trend.



Source: Swiss Reinsurance Company Ltd., EFInA Access to Finance in Nigeria 2010 survey

Figure 9: Access to insurance services in selected countries

Pensions – The Nigerian pensions industry, which is based on the Chilean pensions system, is in its early stages of development, at approximately 5% penetration. Chile's pensions assets, 27 years after implementation of the pensions system, account for 44% of GDP, compared to 4% in Nigeria after 5 years. However, the Nigerian pension system has not yet implemented a social pension fund, which is a vital component of the Chilean pension model. Given the potential of the Nigerian pension systems and the experience from Chile, it is expected that Nigeria can ramp up faster and reach higher penetration.

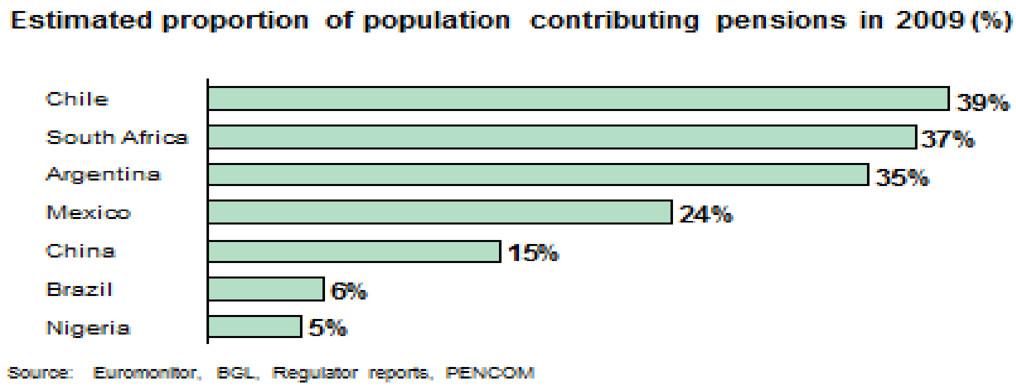


Figure 10: Estimated proportions contributing pensions in 2009 (%)

1.3.2 Channels

Branches – Growth in Mexico, South Africa and Kenya has been driven by competition in the banking sector rather than by regulation or policy. The belief that branches are key to maintaining brand and customer relationships has sustained branch expansion growth, even in markets with strong branchless banking networks, such as Brazil and Kenya. Branches in Nigeria are predominantly upscale and expensive; the mini-branch concept is yet to become widespread.

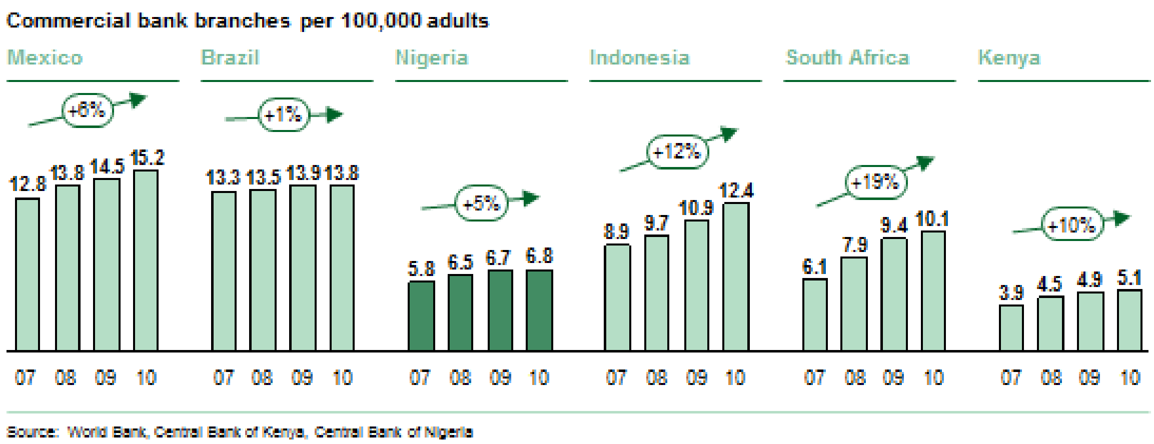


Figure 11: Commercial bank branches per 100,000 adults

ATMs – ATM penetration in Nigeria is very low. Brazil presents an example of increased ATM penetration due to lack of interoperability and increased competition between banks. The introduction of Visa cards in Thailand drove ATM penetration, while growth in South Africa and Kenya was driven by demand and sector competition. Regulation in South Africa has also contributed to the spread of ATMs as the regulator specifies target number of ATMs per 100,000 people, as well as per 1,000 sq. km.

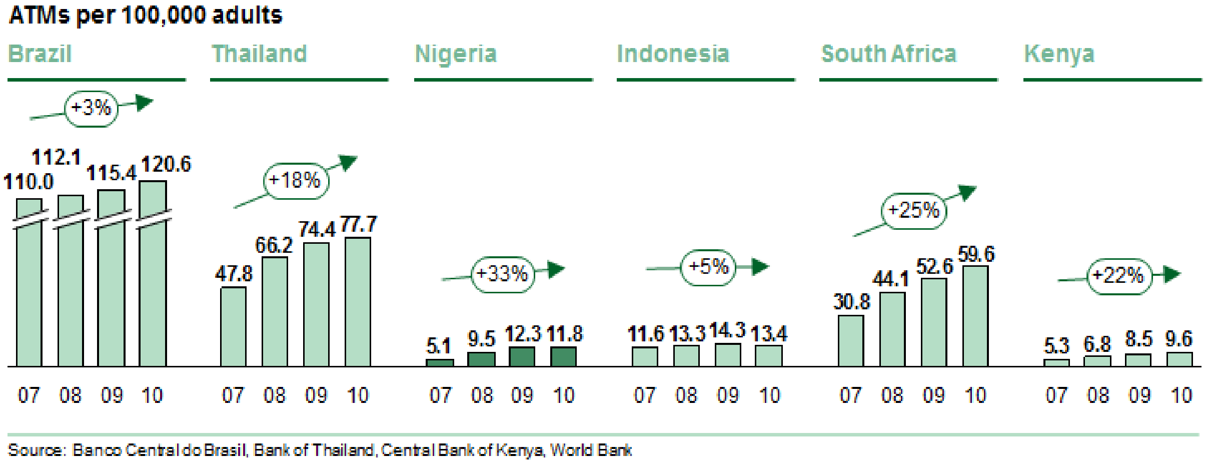


Figure 12: ATMs per 100,000 adults

POS – Regulation allowing retail agents to offer banking services facilitated the growth of POS terminal penetration in Brazil, currently at 2,193 per 100,000 adults. POS penetration in Mexico was driven by sharp increases in card use supported by tax incentives for branchless banking initiatives. A concerted effort is required to raise POS penetration in Nigeria from its current level of 13 per 100,000 adults. It is expected that initiatives increase POS penetration and use under the Cashless Banking Policy will bridge the gap between Nigeria and its peers.

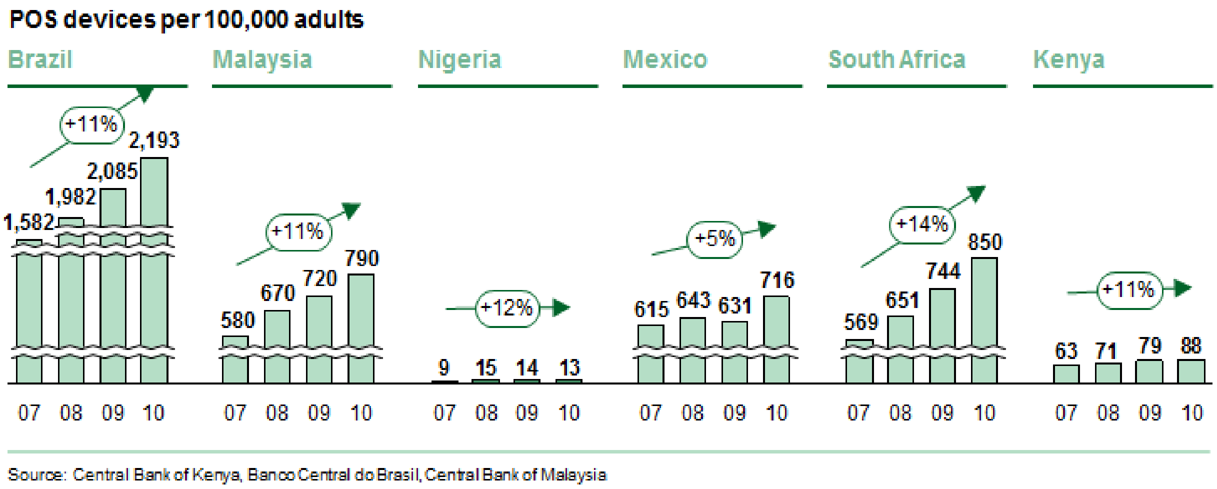


Figure 13: POS devices per 100,000 adults

Agents – Although there is currently no framework for retail agent banking in Nigeria, this channel has great potential to overcome the distribution challenges and increase the use of financial services.

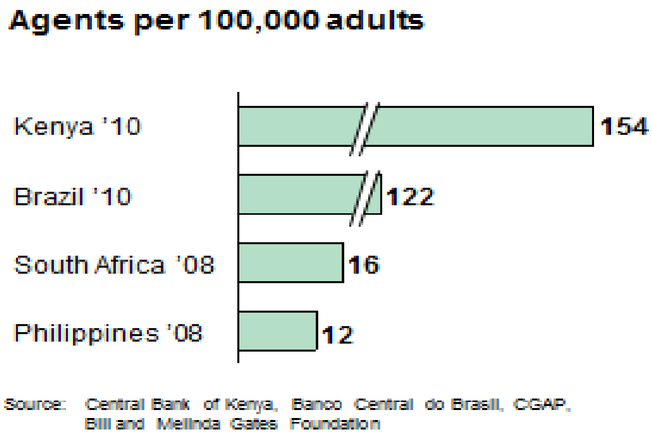


Figure 14: Agents per 100,000 adults

1.3.3 Client Lines

KYC – The banking industry in Nigeria relies on uniform KYC requirements, irrespective of transaction type and risk. Currently, most countries that have successfully increased Financial Inclusion have adopted risk-based approaches to KYC. This has both maintained the integrity of the financial system and increased people's eligibility to participate in banking.

UNIFORM APPROACH	Level	Restrictions	KYC requirement
NIGERIA	All banking services	All banking services	Certainty of identity, mandate to inquire about nature of business, expected transactions and sources of income, identification based on official documents and physical evidence, like address visits
RISK-BASED / TIERED APPROACH			
MEXICO	Level 1 account	USD 315 total	No compulsory KYC requirements
	Level 2 account	USD 470 p.m.	Name, date of birth, address – 24 months validation time
	Level 3 account	USD 950 p.m.	Name, date of birth, address – validated by official ID system
	Level 4 account	USD 3,150 p.m.	Full KYC – may be contracted by agents, no copies necessary
BRAZIL	Simplified Account	USD 500 max. balance	Only governmental ID must be presented within six months time, can be performed by agents
	Regular Account	All banking services	Full KYC
PAKISTAN	Level 1 account	USD 750 max. balance USD 75(d)/150(m) trans	Copy of computerized ID Card plus photo or fingerprint by agent
	Level 2 account	All basic services	Full KYC – financial institution sets limits for customers profiles
	Level 3 account	All business services	Full KYC – additional KYC and limits by financial institution

Figure 15: Benchmarking KYC requirements

Consumer protection – Consumer protection is considered an integral component for enhancing Financial Inclusion. However, there is no central consumer protection council that caters specifically to the financial services industry in Nigeria: various regulators are left to cater to their respective sectors, for example the Consumer Financial Protection Division within CBN.

Selected topics	Key issues	Examples	KEY INSIGHTS
Product transparency ▪ Language ▪ Rights and processes **Savings and loans** ▪ Interest calculations ▪ Fees and penalties **Periodic disclosure** ▪ Product conditions ▪ Fee / penalty income **Unfair treatment** ▪ Advertising ▪ Collection practices **Complaint resolution** ▪ Procedures / processes ▪ Timeliness of response **Third party recourse** ▪ Ombudsman ▪ Mediation services	**Monitoring methods** ▪ Require FIs to report to the CBN consumer protection ombudsman ▪ Operate call center ▪ Monitor advertisements ▪ On site inspections ▪ Mystery shopper ▪ Consumer interviews **Action for enforcement** ▪ Issue warning to FI ▪ Refund of charges ▪ Withdrawal of offerings ▪ Impose fines / penalties ▪ Public notice of violation ▪ Withdraw license	**I Albania** ▪ Collapse of unregulated pyramid savings schemes led to national unrest 360 killed and 3500 injured in 1997 **II India** ▪ Andhra Pradesh provides and example of microfinance failure ▪ Variety of reasons for collapse of sector – including lack of consumer protection	▪ Over-indebtedness and loss of savings are primary risks of using financial services ▪ Quick wins in Financial Inclusion can be marred if consumers are not educated on products and protected accordingly ▪ Therefore, giving clients access to formal consumer protection serves to protect them from over-indebtedness and loss of savings

Figure 16: Key elements of consumer protection

Financial literacy – Financial literacy is a central pillar to the enhancement of Financial Inclusion, particularly when coupled with consumer protection. In Nigeria, the level of financial literacy has so far not been measured across the population spectrum, although some estimates have been made. Various financial literacy initiatives have been embarked on but the full impact of these initiatives is yet to be ascertained. However, it should be noted that people will only participate in the various forms of financial services if they are aware of the existence and benefits of such services.

Targets	Players	Tools	KEY INSIGHTS
Product understanding ▪ Awareness of product existence and purpose ▪ Product expenses **Information access** ▪ Know where to look for relevant information **Business planning** ▪ Business cash-flows ▪ Household expenses **Informed decisions** ▪ Awareness of different financial options **See consequences** ▪ Understand relevance of bad financial decisions	**Government** ▪ Literacy training in schools and public institutions ▪ Media campaigns ▪ Provide neutral information **Regulators** ▪ Enforce transparency ▪ Supervise disclosure of financial institution information **Retail institutions** ▪ Provide product information ▪ Literacy training for clients **Social partners / NGOs** ▪ Offer neutral information ▪ Watch abusive practices	**Face-to-face** ▪ Classroom training ▪ Individual training **Public media** ▪ Radio campaigns ▪ Newspaper adds ▪ Road shows **Multimedia** ▪ DVD training ▪ Social networks ▪ SMS **Material** ▪ Dummy ATMs ▪ Brochures ▪ Posters	▪ Financial literacy is a key element of financial sector stability ▪ The major challenge lies in monitoring of the impact financial literacy initiatives ▪ Consensus will need to be reached as to the cost-benefit of measuring financial literacy

Figure 17: Key elements of financial literacy

1.4 Financial Inclusion Targets

Targets for Financial Inclusion have not been defined in Nigeria in the past. To ensure that Nigeria sets targets that will put it ahead of its peers, each financial services product and channel has been benchmarked against the best-in-class country and growth factors have been used to define targets for Nigeria for 2015 and 2020. The targets relate to product use, channel penetration and client benefits. They take into account the current position of Nigeria and forecast levels that are believed to be achievable within the given timeframe.

TARGETS

		2010	2015	2020
% of total adult pop.	Payments	36%	53%	70%
	Savings	24%	42%	60%
	Credit	2%	26%	40%
	Insurance	1%	21%	40%
	Pensions	5%	23%	40%
units per 100,000 adults	Branches	6.8	7.5	7.6
	MFB branches	2.9	4.5	5.0
	ATMs	11.8	42.8	59.6
	POS[2]	13.2	242.7	381.7
	Mobile agents[3]	0	31	62
% of pop.	KYC ID	18%	59%	100%

1) Compound Average Growth Rate
2) POS targets include retail agents, such as NIPOST
3) Mobile agents refers to mobile payments agents under the Mobile Payments Framework

A PRODUCTS

- Payment is targeted to have the highest outreach at 70% by 2020, followed by savings at 60% by the same period

B CHANNELS

- Annual CAGR[1] of 3.3% targeted for deposit money bank branches and 8% for MFB branches
- ATMs and POS targeted to grow more rapidly to meet financial services demand and benchmark levels (CAGR of 20% and 43% respectively)
- Agents targeted to growth from zero to 62 per 100,000 adults over the target period - 2020

C CLIENTS

- Tiered KYC and consumer protection regulation should be in place to ensure sustainable growth
- National ID should be available to all Nigerians and financial literacy initiatives will be driven by the CBN and other financial services regulators

Figure 18: Overview of targets for achieving increased financial inclusion

To achieve these targets, Nigeria needs key performance indicators (KPIs) to monitor the impact of initiatives and the progress of the Financial Inclusion strategy.

	Key performance indicators
Usage of Financial Services	▪ Number and share of adults using a payment product ▪ Number and share of adults using a savings product ▪ Number and share of adults using a credit product ▪ Number and share of adults using an insurance product ▪ Number and share of adults with retirement savings
Access to Financial Services	▪ Number of branches per 100,000 adults / per 1,000 sq km ▪ Number of ATMs per 100,000 adults / per 1,000 sq km ▪ Number of POS devices per 100,000 adults / per 1,000 sq km ▪ Number of agents per 100,000 adults / per 1,000 sq km
Affordability	▪ Cost of using channels of delivering financial services e.g. cost of ATM transactions ▪ Cost of entry level credit product / insurance product / transactional services ▪ Interest rate spread between savings and credit for low value accounts
Appropriateness	▪ Reason for not having a payment / savings / credit / insurance / pension product
Financial Literacy	▪ Product understanding – Product features / product benefits ▪ Business planning – Knowledge of business cash-flows and household expenses ▪ Informed decisions – Awareness of different financial services offerings / options ▪ See consequences – Understand relevance of bad financial decisions
Consumer Protection	▪ Percentage of over-indebted clients ▪ Transparency of pricing → Monitoring and action in place? ▪ Existence of complaints resolution mechanism / number of resolved complaints ▪ Number of complaints on collection practices / bank staff misbehavior ▪ Privacy of client data

Figure 19: KPIs for monitoring progress

1.4.1 Targets for Products

Payments – There are currently no targets for payments penetration in Nigeria. The target adopted here is based on South Africa's current payments level of 59%[23]. However, the emergence of mobile payments in Nigeria is expected to drive payments beyond the levels seen in South Africa today.

The target requires a 9% CAGR from 2011 to 2020. The 31 million users of payment products in 2010 must increase to 49 million by 2015 and 73 million by 2020. To reach this target, regulation for retail agent banking services must be put in place.

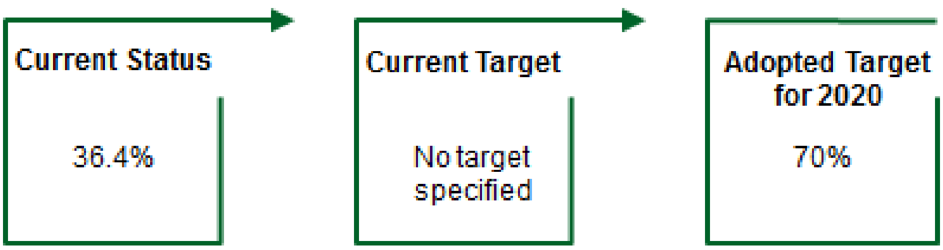


Figure 20: Payments targets

[23] World Bank/CGAP

Savings – FSS 2020 and CBN currently have no targets for the savings level in Nigeria. The target adopted here is based on Kenya's current savings level of 48%[24].

The target requires a 12% CAGR from 2011 to 2020. The 21 million users of savings products in 2010 must grow to 39 million by 2015 and 63 million by 2020. To reach this target, national savings mobilisation programmes coordinated by the CBN in conjunction with commercial and microfinance banks will be required. A significant burden on increasing savings is the current KYC requirements for opening and maintaining bank accounts. This issue must be addressed.

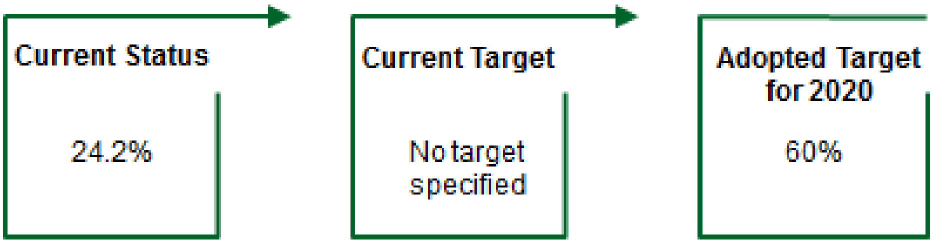


Figure 21: Savings targets

Credit – FSS 2020 sets a 70% target for credit coupled with a target single-digit interest cap by 2020. Given Nigeria's current position and South Africa's credit penetration of 32%, a target of 70% by 2020 is ambitious, even with a well-developed and highly competitive banking sector. The target has therefore been revised downwards to 40%, based on the credit penetration levels of South Africa (32%) and Uganda (37%)[25].

The target requires a 40% CAGR from 2011 to 2020. The 1.5 million borrowers in 2010 must grow to 19 million by 2015 and 42 million by 2020. To reach these levels, savings mobilisation must be driven to reduce the cost of funds for banks. In addition, improved credit processes and credit bureaus for small value credit and a robust national identity system will be required.

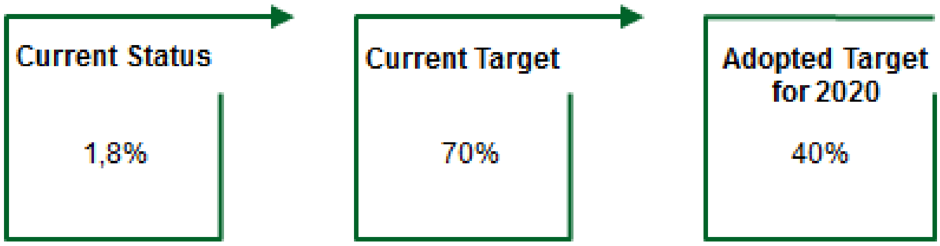


Figure 22: Credit targets

[24] World Bank/CGAP

[25] World Bank/CGAP

Insurance – FSS 2020 sets a 70% target for insurance penetration in Nigeria by 2020. Given the current level of credit penetration in Nigeria (1%), this target appears too ambitious and has been reduced to 40%, based on the current insurance penetration level of 36% in South Africa.

The adopted target requires a 48% CAGR from 2011 to 2020. The approximately 800,000 insured Nigerians in 2010 must increase to 19 million by 2015 and 42 million by 2020. Insurance uptake will need to be driven by regulatory enforcement of compulsory insurance products and the use of insurance agents: NAICOM sets target growth of insurance agents from 1,400 in 2010 to 50,000 by 2012, which should contribute significantly to achieving the adopted targets for insurance penetration.

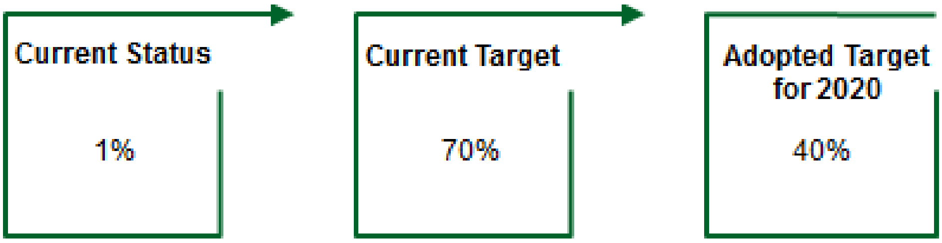


Figure 23: Insurance targets

Pensions – The National Pension Commission has yet to set targets for pension penetration. The target adopted here is based on Chile's current pension level of 39%[26]. Nigeria's pension scheme is based on the Chilean model and as such can benefit from Chile's experience.

The target requires a 25% CAGR from 2011 to 2020. The 4.5 million pension contributors in 2010 must increase to 20.1 million by 2015 and 41.8 million by 2020.

Pensions penetration is expected to be driven either by the expansion of the current scheme to cater to the informal sector or the development of a new scheme that caters specifically to the informal sector.

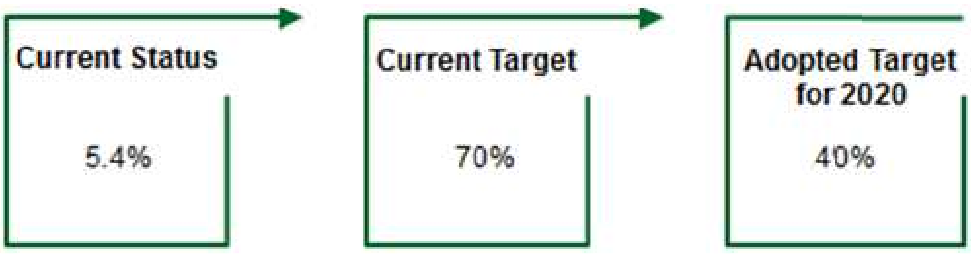


Figure 24: Pensions targets

[26] World Bank/CGAP

1.4.2 Targets for Channels

Branches – No targets have been set for branch penetration. However, for the purpose of this strategy, targets for Nigeria have been benchmarked against Mexico.

The target adopted here requires a 3.3% CAGR from 2011 to 2020 and is in line with growth rates in Indonesia (12%) and Kenya (10%)[27]. In the MFB sector, bank/branch expansion is targeted to grow at 8% CAGR, from 2.9 to 5.0 branches per 100,000 adults, benchmarked against Bolivia. This expansion will need to be driven by rural expansion policies, increased competition for new clients and increased promotion of shared services initiatives. Expansion in the MFB sector could come from the licensing of additional MFBs or the expansion of current MFBs.

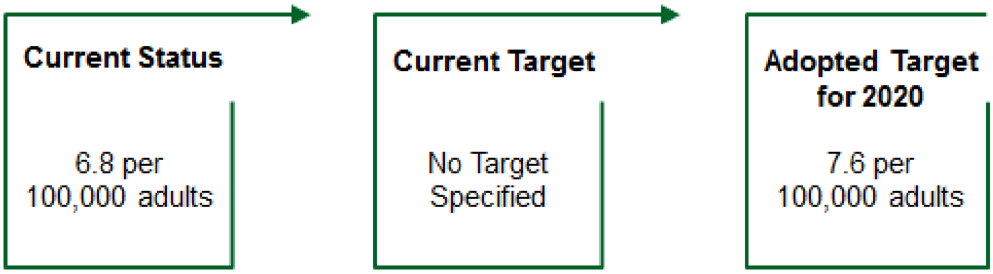


Figure 25: Branches targets

ATMs – Although the Cashless Lagos initiative of the CBN targets 40,000 ATMs for Lagos by the end of 2011, no national target has yet been set.

The target adopted here requires a 20% CAGR from 2011 to 2020, significantly below the current four-year CAGR of ATM growth (2007-2011) in Nigeria. A 20% CAGR is in line with Thailand (18%), South Africa (25%) and Kenya (22%)[28]. To achieve the targets, regulatory amendments are required allowing banks to deploy off-site ATMs.

[27] World Bank/CGAP

[28] World Bank/CGAP

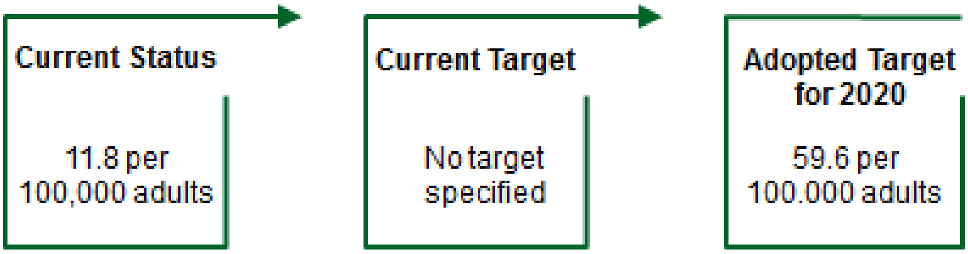


Figure 26: ATM targets

POS – The Cashless Lagos initiative targets a combined 150,000 POS and ATMs by the end of 2012. However, there is no national target for POS penetration.

The target adopted here is based on current penetration in South Africa (850 per 100,000 adults). To achieve this target, an additional 440,000 POS devices will be needed in Nigeria by 2015 and a total of 890,000 must be in place by 2020, the equivalent of a 55% CAGR up to 2020. Regulation supporting agent banking, and the commencement of mobile payments, will be significant drivers for POS device penetration.

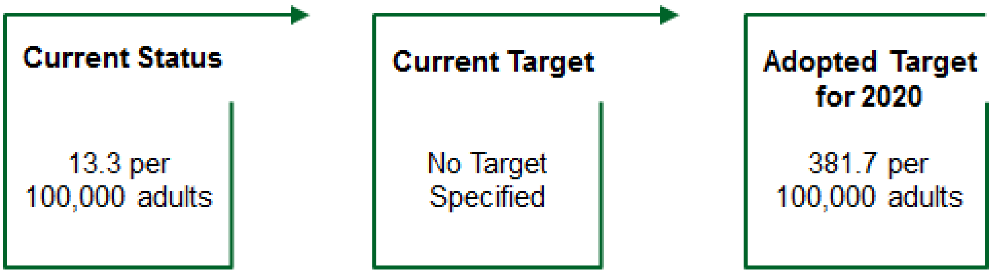


Figure 27: POS devices targets

Mobile agents – There is currently no regulation for retail agent banking in Nigeria. As such, no targets currently exist for this channel. The targets adopted here have been derived by benchmarking Nigeria against Brazil, which has 122 mobile agents per 100,000. To achieve these targets, a network of 32,500 agents needs to be established by 2015, increasing to 65,000 by 2020. The development of agent banking in Nigeria could occur as a result of implementing an agent banking regulatory framework which allows agents to open entry-level accounts and perform a selection of retail transactions, as well as risk-based tiered KYC. Risk-based KYC strikes the balance between achieving Financial Inclusion goals and limiting the risk to the financial system from money laundering and terrorist financing activities.

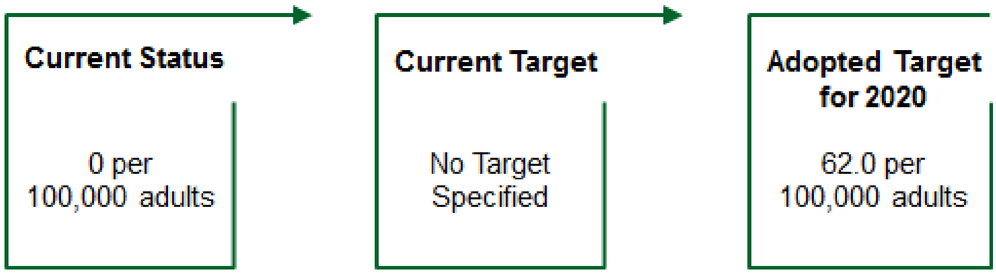


Figure 28: Mobile agents targets

1.4.3 Target for Client Lines

Consumer protection – Consumer protection is critical to avoid over-indebtedness and ensure the sustainability of socio-economic development. The target is to develop a centralised and well defined consumer protection framework by 2015. This framework is aimed specifically at financial services and will define precise methods for consumer protection and conflict resolution.

Financial literacy – Governmental institutions and development partners have made some efforts to address the low levels of financial literacy in Nigeria. However, these steps have not yet been assessed and the rate of success in increasing financial literacy and/or the use of financial services and products has yet to be quantified. Financial literacy should be incorporated into the school curriculum: the target should be to introduce curricula dealing with financial products, services and markets in 30% of secondary schools by 2015. A 50% adult awareness of financial products, services and markets is also targeted for 2015.

1.4.4 Overall Targets

The overall target is to increase penetration of all five primary products (payments, savings, credit, insurance and pensions) to at least 40% by 2020: the target for insurance and credit is 40%, for pensions 40%, for savings 60% and for payments 70%.

By 2020, an estimated 73.4 million adults (based on a projected adult population of 104.8 million[29]) will be financially included, using at least one formal financial product. Consequently, financial exclusion will fall to less than half the current proportion (from 64% to 30%) by 2020.

To support the target picture for Financial Inclusion in 2020, the number of bank branches will need to increase from 5,797 in 2010 to 10,000 in 2020. The number of ATMs will need to

[29] Projection based on data from the National Bureau of Statistics

increase from 9,958 to 62,440 and the number of POS devices from 11,223 to 400,000. A mobile agent network of 65,000 agents will also be required by 2020.

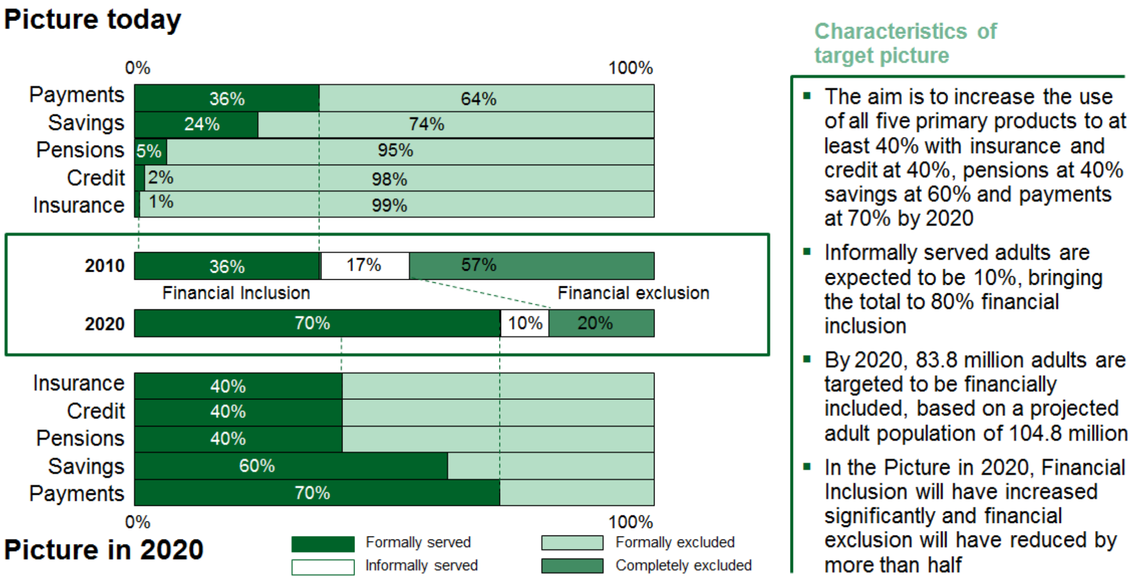


Figure 29: Target picture for financial inclusion

1.5 Enablers and Obstacles to Achieving Financial Inclusion Targets

Interviews were carried out with the various stakeholders of Financial Inclusion in order to highlight their perception of current enablers and obstacles in their respective industries. Preliminary recommendations have then been made for overcoming obstacles and enhancing enablers. We define "enablers" as existing conditions that contribute to reaching Financial Inclusion targets. Such enablers may require reinforcement or need to be released from existing constraints. "Obstacles" are circumstances that detract from reaching Financial Inclusion targets. Such circumstances may require revision or intervention.

Based on stakeholder feedback, current KYC regulation and the lack of adequate identification systems pose the greatest challenges to increasing Financial Inclusion for clients. For the providers of financial services, the lack of enforcement of existing regulations and the steep distribution channel costs appear to be the main challenges. CBN initiatives towards branchless banking and adequately executed shared services are expected to drive down channel costs while allowing providers to cater to the demand for financial services products and services better.

1.5.1 Commercial Bank Branches

Enablers

- The existing branch network can form the backbone for mobile payments and agent banking networks in order to reach a larger segment of the population
- Leveraging mobile payments and agents' banking networks allows banks to focus on product innovation and diversification
- Insurance coverage against theft and other dangers for branches increases the safety of deposited funds

Obstacles

- **KYC:** Standard, onerous KYC requirements for customers irrespective of the account type and risk profile
- **Cost:** High cost of branch rollout and maintenance
- **Spread:** Concentration of bank branches in profitable urban areas and inadequate coverage in rural areas
- **Service delivery:** Complex account opening forms at most banks; delivery of services currently only in English and not in indigenous languages

Recommendations

- **KYC:** Implement tiered KYC. CBN is currently collaborating with NIMC on a biometric national ID project which can also act as a cash card. This will help to reduce the KYC cost to banks and act as an initial step towards addressing identification challenges. This initiative needs to be followed through
- **Cost:** Promote shared infrastructure for banks to reduce costs
- **Spread:** Promote the expansion of mini-branch and e-branch models to serve less populated areas
- **Service delivery:** Simplify and standardise account opening forms; provide services in English and also in official indigenous languages – current efforts should be enhanced here

1.5.2 Microfinance Bank Branches

Enablers

- Microfinance regulation – supports growth and expansion of MFB activities
- Tiered capital requirements according to geographical footprint
- Capacity-building initiatives by the Central Bank and other development partners
- Collaboration between MFBs and CBN to ensure development of the sub-sector
- RUFIN presence in 12 states, which serves as a link between MFBs and the financial sector

Obstacles

- Many MFBs operate as mini-commercial branches, with high operating costs and missions drift
- Urban focus of most MFBs due to the need for quick profitability
- No added incentives to promote rurally focused MFBs

- Limited access to funds and high cost of funds
- Long approval process for unit branches to increase branch footprint, coupled with a restrictive approval process for obtaining higher-tier MFB licences

Recommendations

- Re-evaluate the business and operating models of MFBs
- Institute incentives for MFBs that serve rural communities
- Enhance linkage programmers, such as RUFIN, to all 36 states
- Implement the microfinance development fund
- Develop an interbank platform for MFBs
- Review and streamline the branch expansion process for MFBs

1.5.3 ATM

Enablers

- Increased interoperability of ATMs
- Receptiveness of Nigerians towards using ATMs for various transactions
- Introduction of multifunction ATMs – deposits, withdrawals and payments

Obstacles

- **Cost:** High transaction fees for customers; spread between cost and retail price of ATM cards is high – a hindrance to ATM card penetration
- **Regulation:** A repeal of the policy barring banks from operating off-site ATMs has not been formalised and so banks lack the certainty they require in order to develop their ATM networks; lost investments for banks following the repeal of the policy allowing off-site ATMs
- **Service delivery:** IAD-operated ATMs often lack funds or are out of order; ATM machines are not configured to offer indigenous languages, despite existing capabilities

Recommendations

- **Cost:** Reduce caps on transaction charges or allocate charges relative to transaction volume; introduce price caps on charges for ATM cards – banking transaction charges are currently under review by CBN and should be finalised
- **Regulation:** Implement a regulation allowing banks to operate off-site ATMs – this is currently pending; repeal the policy reserving ATM locations for ATM deployers; encourage banks to outsource ATM stocking to cash-in-transit providers
- **Service delivery:** Incentivise ATM deployments to rural areas; configure ATMs so that they offer services in indigenous languages; develop guidelines on the minimum functionality of ATMs, e.g. deposit, bill payment, withdrawal

1.5.4 POS

Enablers

- Interoperability between banks, irrespective of POS deployer

- Instant update of debit/credit transactions in some banks
- Automatic link of POS to bank channels to enable instant text updates
- Portability and mobility of POS devices
- Ability to operate POS using charged batteries for 48 hours

Obstacles

- **Merchant apathy:** Significant merchant apathy – a merchant who pays commission on POS transactions will often have free cash management services from banks
- **Employee disincentives:** e.g. retailers and restaurant employees sabotage POS use as they often lose tips on e-transactions
- **Infrastructure:** Low POS activation levels (currently 14%); poor power supply – challenge for recharging POS batteries
- **Reach:** Low adoption of POS transactions in open market and rural areas
- **Service delivery:** POS devices are not configured to offer indigenous languages despite existing capabilities

Recommendations

- **Merchant apathy:** Implement CIT providers as a disincentive for merchants to engage in cash transactions; merchant education and incentive schemes for POS use – incentive for merchants to force staff to use POS devices
- **Infrastructure:** Globalcom and MTN have agreed to provide dedicated channels for POS data to improve the reliability of connections; create shared services for recharging POS batteries, e.g. NIPOST branches; promote solar-charged POS devices
- **Reach:** Promote POS deployment to open market and rural areas
- **Service delivery:** Enable POS terminals to offer indigenous languages

1.5.5 M-Payments and Retail Agents

Enablers

- Existing bank branch network cannot meet the demand in a cost-effective manner – significant demand for agent banking
- Mobile payments framework enables agents/agent banking
- High unemployment rate, which suggests captive pool of potential agents
- Existing MNO and retail agent networks; concept of agent-based services is well known

Obstacles

- **Regulation:** Absence of regulations defining the scope of agent banking in Nigeria
- **Security:** Low security throughout the country exposes banking agents to financial and personal risk; risk of fake agents undermines the robustness of the sector
- **Reach:** The low transaction volume, especially in rural areas, reduces the appeal of working as an agent

Recommendations

- **Regulation:** Develop an agent banking framework – currently under review by CBN, should be finalised soon

- **Security:** Security of agents: implement a licensing system for agents to limit the prevalence of fake agents
- **Reach:** Incentivise agents to serve a cross-section of financial service providers; facilitate shared services centres for agents, leading to a reduced cost of operations; provide incentives for the development of agent networks in rural areas; facilitate agent POS

1.5.6 Credit

Enablers

- Strong demand for savings services by the population provides an enormous funding base for loans
- Government programme allowing additional refinancing for well-governed and sustainable institutions
- Improving financial literacy: infrastructure such as credit bureaus and asset registries brings increased transparency
- Differentiated approaches by financial institutions: specific loan products for M/SMEs, agriculture, consumer trading, housing, etc.

Obstacles

- Existing refinancing possibilities are not sufficiently used by financial institutions
- High financial and operating expenses mean that high interest rates are charged that cannot be borne by clients
- Lack of assets and savings among the low-income population results in high levels of loan defaults in case of external shocks
- Lack of knowledge of demand-side needs, assets and cashflow hinder the design of tailored products

Recommendations

- Strong focus on mobilising savings as a cheap source of funding and collateral for loan distribution
- Support for research and surveys of demand will enable a better understanding of cashflows and make tailored products possible
- Use of automated, efficient loan processes based on savings history and collateral
- Further linkage of grass-root organisations with commercial institutions for refinancing and safeguards on savings

1.5.7 Insurance

Enablers

- Strong capital base of most insurance companies following the recapitalisation of the industry in 2006
- Regulations supporting compulsory insurance policies for Nigeria
- Global best practices and innovative approaches allow Nigerian firms to learn and avoid first-mover mistake

Obstacles

- **Industry awareness and understanding:** Limited insurance literacy; limited understanding of customer needs
- **Distribution:** Ineffective distribution channels, particularly in rural areas
- **Regulations:** Non-enforcement of compulsory insurance regulation; fragmented industry leading to the emergence of fake agents, undermining trust in the industry; general industry complacency – insurance practitioners have been allowed to run wild
- **Identification**: Lack of an adequate identification system

Recommendations

- **Awareness and understanding:** Conduct surveys once every two years on insurance demand, literacy and uptake levels – under consideration by NAICOM; develop products tailored to existing demand (e.g. agri-insurance); promote insurance literacy initiatives
- **Distribution:** Promote agent networks/leverage NIPOST as a distribution channel; leverage mobile payments as distribution channels
- **Regulation:** Enforce regulation, particularly for compulsory products; mandate insurance coverage for specified services (e.g. construction insurance); prosecute fake agents.
- **Identification:** Partner with the NIMC biometric national ID project

1.5.8 Pensions

Enablers

- The 2004 Pensions Reform Act (PRA) established a clear contributory scheme for the formal sector
- The 2004 PRA makes it mandatory for companies with more than 5 employees to participate
- No KYC requirement for retirement savings accounts as employers remit contributions on behalf of employees
- Some Pension Fund Administrators (PFAs) already provide multilingual customer services
- Some PFAs attempt to engage the informal sector via their cooperatives, e.g. Market Women's Association

Obstacles

- **Regulation:** Regulation limits PFAs to serving only the formal sector; regulations restrict participations to companies registered with the Corporate Affairs Commission and a minimum of 5 employees
- **Literacy:** Limited financial literacy
- **Products:** Unpredictability of income in the informal segment, which makes it necessary to tailor schemes specifically for their needs
- **Distribution:** High channel cost relative to generated revenue
- **Investment scope:** Narrow scope of investment products for PFAs to achieve higher that inflation returns

Recommendations

- **Regulation:** Expand regulation to include individuals and cooperatives; develop a framework allowing for irregular contributions in the formal sector
- **Literacy:** Identify and engage cooperatives and unions in order to promote financial literacy
- **Products:** Develop a framework catering for irregular contributions in the informal sector
- **Distribution:** Leverage agents/m-payment networks to provide pensions services; partner with NIPOST to provide pension services
- **Investment scope:** Broaden investment opportunities for PFAs

1.5.9 Telecommunications and Technology Firms

Enablers

- Mobile Network Operators (MNOs) make it possible to immediately access a large segment of the financially excluded
- Significant capacity for swiftly raising awareness and understanding of new products
- Nationwide MNO infrastructure to support m-payments initiatives
- Low-cost channel compared to the existing banking infrastructure – reduced costs for end users
- Technology firms such as Interswitch partnering with state governments – e.g. Rivers State – to produce cash cards embedded with ID; a potential first step to addressing identification challenges

Obstacles

- **Infrastructure:** Despite significant capital injections, limited reliability of the MNO network – will drive up complexity and cost of m-payments products; potential non-interoperability undefined in mobile payments framework; limited network capacity in rural areas
- **MNO apathy:** Since they were prevented from obtaining m-payment licences, MNOS have been reluctant to actively participate or invest here

Recommendations

- **Infrastructure:** Enter into agreements with MNOs to prioritise m-payments data – CBN is currently in talks with NCC; promote alternative communication technologies to current microwave-based MNO networks (e.g. fibre); amend policy to address potential non-interoperability issues; implement policies to promote the roll-out of networks sites, particularly in rural locations
- **MNO apathy:** Ensure the active participation of MNOs in the financial services sector through both incentives and disincentives

1.5.10 Federal Government Programmes

Enablers

- **RUFIN:** Linkage programme for MFIs; strengthening of MFBs – capacity and network
- **SMEDAN:** Network of business development service providers
- **NAPEP:** Conditional cash transfer increased to NGN 2 billion, targeting 12,000 households
- **NEEDS 1:** Targets set for the economy: agricultural growth – 6%; manufacturing growth – 7%; credit to private sector – 30%
- **NEEDS 2:** Further targets set: agricultural growth – 11.5%; manufacturing growth – 13%

Obstacles

- **RUFIN:** Limited funding to expand scope of activities
- **SMEDAN:** Limited mandate expected to facilitate market and financial access without provision of funds and MOU, with only BOI and NERFUND to finance SMEs
- **NAPEP:** Lack of transparency over impact assessment
- **NEEDS 1:** Impact assessment after NEEDS 1 was not related to the targets set
- **NEEDS 2:** Lack of accountability and poor link between policy and outcome

Recommendations

- **RUFIN:** Expand linkage programme; expand fund to cover more states and more capacity-building programmes
- **SMEDAN:** Establish a three-tier funding system; create an SME registry and highlight the importance of SMEs
- **NAPEP:** Implement accountability and create more clarity over the mode of disbursement.
- **NEEDS:** Establish clear processes to monitor and report achievements/targets

1.5.11 Shared Services

Enablers

- Enormous business potential in shared services through the efficient use of delivery channels and possible outreach to untapped client groups
- Unification of account numbers for all commercial banks, as mandated by CBN
- Federal Governments strengthening NIMC to issue national identification numbers and national ID cards to Nigerians (100 million expected in 30 months) – potential for centralised KYC

Obstacles

- Poor availability and unreliability of payments channels due to inadequate maintenance of access points and irregular stocking of ATMs
- Slow uptake of policy on interoperability
- Limited number of access points to support initiatives such as the policy on retail cash collections and lodgement

Recommendations

- Enforcement of standards for electronic banking; centralisation of maintenance services through IADs for off-site ATMs for example (ongoing)
- Enforcement of interoperability requirements (ongoing)
- Government support for ramp-up of access points through tax incentives and subsidising infrastructure costs

1.5.12 Platforms

Enablers

- **Credit bureaus:** Existing regulation and supervisory framework
- **Mortgage Registry:** One of the goals of FSS 2020
- **Collateral Registry:** One of the goals of FSS 2020
- **Consumer protection:** Consumer Financial Protection Division already established at CBN
- **Financial literacy:** SEC is developing a school curriculum on capital markets; CBN trains MFB operators and young people

Obstacles

- **Credit bureaus:** Only selected information on credit provided is collected and analysed
- **Mortgage Registry:** Yet to be established
- **Collateral Registry:** Yet to be established; current land registry is manual
- **Consumer protection:** Monitoring and enforcement of a holistic consumer protection approach non-existent
- **Financial literacy:** No coordinated approach to increasing financial literacy

1.5.13 MFIs/NGOs

Enablers

- Potential link between formal and informal sectors
- Grass-roots knowledge of the people, their language and their business
- Small institutions allow a stronger sense of ownership and social pressure for credit repayments
- Development partners already engage in capacity-building in the informal sector
- Proximity to clients encourages inexpensive operations, flexibility and tailored products and processes

Obstacles

- Lack of regulation and supervision – indebtedness, loss of deposits and malicious loan-recovery practices
- Lack of commercial orientation – inherently unsustainable institutions
- Lack of professionalism and transparency over operations reduces the amount of investment
- Limited size does not allow economies of scale for larger investments in the financial infrastructure

Recommendations

- Consider a stronger connection of MFIs with supervision and the formal sector through associations and linkage models
- Discuss the concept of "branchless MFIs" as a linkage model with MFBs or DMBs on an agent basis
- Consider basic guidelines for all financial intermediations irrespective of the institutional framework
- Develop capacity-building programmes tailored to MFIs, particularly in the area of commercial orientation

2. Scenarios, Operating Model and Regulatory Requirements

It is important to explore the various scenarios that have the potential to increase access to finance in Nigeria. A review of products reveals that changing the characteristics of banking products alone will not significantly increase Financial Inclusion. This suggests that a focus on increasing the channels of delivery and the interaction between these channels is an effective way to increase Financial Inclusion.

Three scenarios with a qualitative impact on Financial Inclusion have been evaluated:

i. Branch Model
ii. Retail Agent Model
iii. Mobile Payments Model

With regards to client lines, two important elements – namely: iv. the Linkage Model and v. the Client Empowerment Model – were also considered. All in all, five different models were explored and reviewed critically in order to determine the way forward.

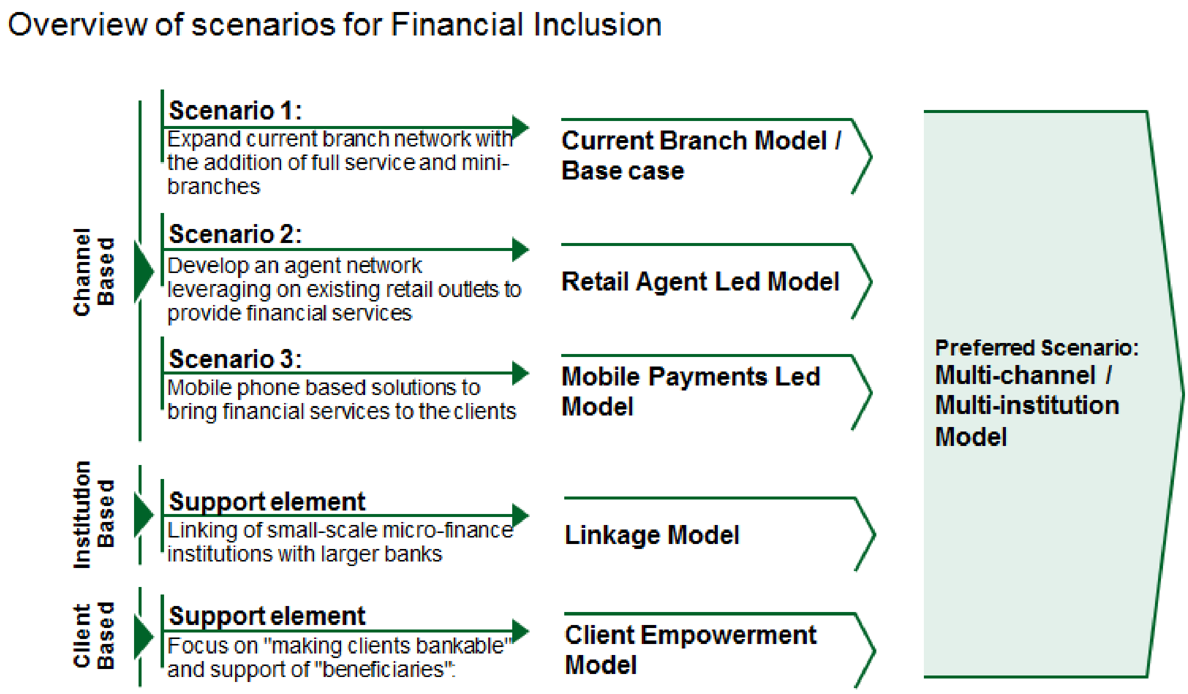


Figure 30: Scenarios for increasing financial inclusion

2.1 Branch Model

The Branch Model is the model of banking that exists in Nigeria today. It relies on traditional bricks-and-mortar branches as the dominant channel for delivering banking services. Support channels such as ATMs and POS devices are used on a small scale in high-profile areas such as hotels and shopping centres. In this model, clients need to access branch infrastructure to use financial services and are restricted by branch operating hours for complex transactions.

Traditional branches have high capital expenses, with an average branch costing NGN 150 million, as well as high operating expenses of approximately NGN 150 million annually. Consequently, branches are predominantly located in profitable urban areas. Due to the high cost of operations, the branch model drives up the cost to customers and is a disincentive for the mass-market/low-income segment. This restricts operations to mostly middle to high-income customers. Moreover, the current branch model typically centralises operations at the branch level. This creates some redundancy in operations.

Achieving the Financial Inclusion targets using only branches would require a rapid ramp-up of infrastructure beyond urban areas, with each branch maintaining client capacity of about 8,000 customers in order to achieve profitability. Some 14,300 branches and 66,000 ATMs would be needed. This scale of branch operations is not achievable in sparsely populated areas and, as such, the Branch Model is not considered feasible for meeting the Financial Inclusion targets.

2.1.1 Retail Agent Led Model

In the Retail Agent Model, financial services are delivered via retail agents who may be wholly owned by the financial service provider or other merchants. The agent network is supported by a backbone branch network for cash-in/out services. Agents are facilitated by POS or other e-channel devices that are linked to the financial institution's IT platform. They are trained by the financial institution and paid a commission for every transaction.

The Retail Agent Model allows financial institutions to quickly increase outreach at relatively low costs. This is because of its flexible cost base, which is due to the commission payment system for agents. Agents can be used to extend other financial services, such as mobilising insurance premium payments via POS or selling scratch cards – ideal for micro-insurance as well as disbursing pension payouts via POS. This reduces or can even eliminate the long distances that insurance clients and people receiving pensions typically have to travel to receive payment at branches.

The Retail Agent Model is considered ideal for providing basic financial services that require personal contact with existing and prospective clients. However, it has limitations when it comes to providing more complex financial services as it requires specialised staff and the use of branch infrastructure. To achieve Financial Inclusion targets with this model, at least 146,000 retail agents (serving 200 clients each) would be required, supporting a branch infrastructure of 7,500 branches.

2.1.2 Mobile Payments Led Model

In the Mobile Payments Model, financial services providers reach their customers via mobile telephones. In addition, customers may deposit or withdraw cash in exchange for e-value at a bank branch, licensed cash-in/out centre or ATM. The e-value can be stored either directly onto the customer's telephone or cash card, and customers can make payments for goods and services via mobile phone or cash card.

Other financial services can also be conducted using the Mobile Payment Model. These include mobilising and disbursing insurance premiums and pension contribution/collection using mobile phones or cash cards as e-money. Government-to-people payments such as NYSC allowances can also be disbursed via mobile payment channels. In this case, the commission is split among mobile agent, payments provider and scheme owner.

The Mobile Payments Model leverages mobile phones as an alternative channel to reach a large segment of the unbanked and underserved. Mobile payments can also be used for payments into savings accounts, loan repayments or insurance/pension payments. This model is the first step towards full mobile financial services.

However, the use of m-payments is limited by the necessary interchange with the physical banking infrastructure through cash-in/out operations and interaction with bank staff for KYC procedures, loan applications and larger transactions. To achieve Financial Inclusion targets, at least 146,000 m-payments agents (each serving about 120 clients) would be required to support a branch infrastructure of 7,500 branches.

2.1.3 Linkage Model

In the Linkage Model, an individual, informal group or cooperative is referred to a financial services provider (typically an MFB) by a linkage institution. The financial services provider then extends services to the individual, cooperative or informal group. Organisations such as RUFIN currently provide linkage services in remote rural areas to increase the bankability of those living in rural communities. The financial institutions that linkage institutions refer potential clients and client groups to are mainly microfinance banks, plus some commercial banks and insurance providers. Standard products and services are provided to these clients/client groups, such as payments, savings, credit and insurance.

The Linkage Model lacks the resources in terms of capital, qualified staff and know-how to adequately provide financial services to a significant proportion of the low-income segment. Few innovative and high-capacity MFBs have the potential to reach out to the low-income segment via innovative low-cost channels. Partnerships with commercial banks and MNOs may support the variety of services offered by MFBs, especially with regards to access to payment services and insurance.

The Linkage Model would, to a large extent, rely on significant capacity-building investment and support from development partners. On its own, this model is unable to increase Financial Inclusion to its target levels as it does not bridge the cost of geographically distant clients reaching branches and therefore does not significantly increase access.

2.1.4 Client Empowerment Model

The Client Empowerment Model – also known as the Impact Model – focuses on increasing the "bankability" of people through interventions that drive financial literacy, awareness and/or income-generating activities. Such interventions may include financial literacy programmes, business skills training, marketing campaigns and national identification programmes.

The rationale for this model is that many individuals are not considered bankable due to their low or unsteady income, inability to meet KYC requirements, lack of understanding of products or perceived lack of need for formal financial services. Client empowerment is usually the focus of certain NGOs, government programmes and financial institutions.

The overall impact of the Client Empowerment Model is considered small in comparison with the game-changing impact of technology-based approaches. However, it adds to the sustainability of banking in the low-income segment and the increase in outreach at the mass-market level.

2.1.5 Preferred model

The preferred model is a combination of all five models. It leverages existing global best practices to increase Financial Inclusion to target levels. It focuses on technology-driven low-cost channels that can be deployed easily to ensure that access is significantly increased in a way that is profitable for both the providers of financial services and end users. The preferred model would require 4,100 branches, 3,400 mini-branches, 51,800 ATMs, 122,000 retail agents and 55,200 mobile agents.

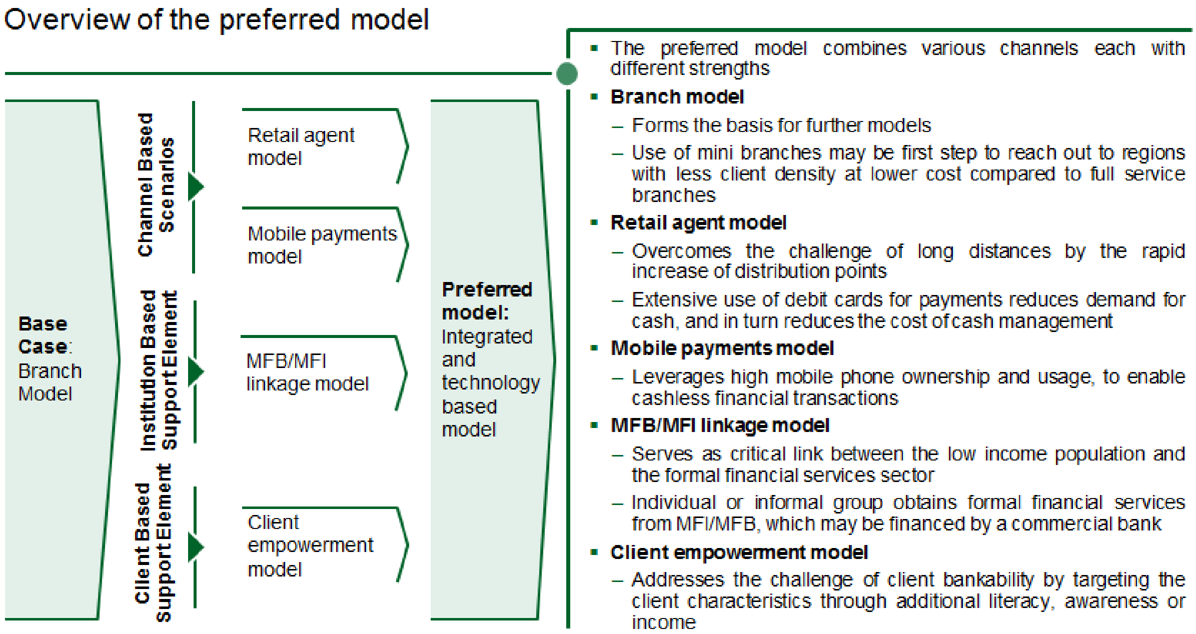


Figure 31: Preferred model for achieving financial inclusion targets

Combining various elements from each of the models helps to overcome the existing gaps and barriers to people using financial services. Each challenge (based on the 2010 EFInA Access to Financial Services survey) is addressed by specific elements in the Preferred Model:

- Income – addressed by the client empowerment element
- Physical access – addressed by the retail and mobile payments elements
- Financial literacy – addressed by the linkage and client empowerment elements
- Affordability – addressed by the retail and mobile payment elements
- Eligibility – addressed by the client empowerment element

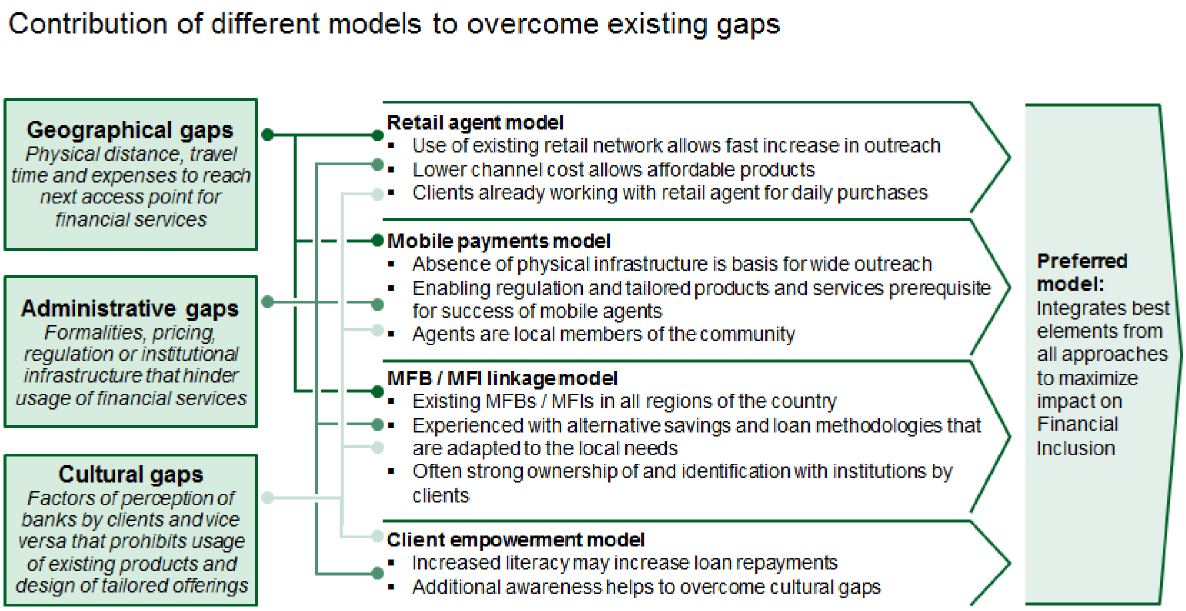


Figure 32: The preferred model addresses the challenges to financial inclusion

The Preferred Model optimises elements from each model. Its game-changing impact can be achieved by focusing on technology-driven, low-cost channels that can be deployed easily. By leveraging various channels while increasing the bankability of clients, the Preferred Model – integrated and technology-based – is best positioned to achieve the targets.

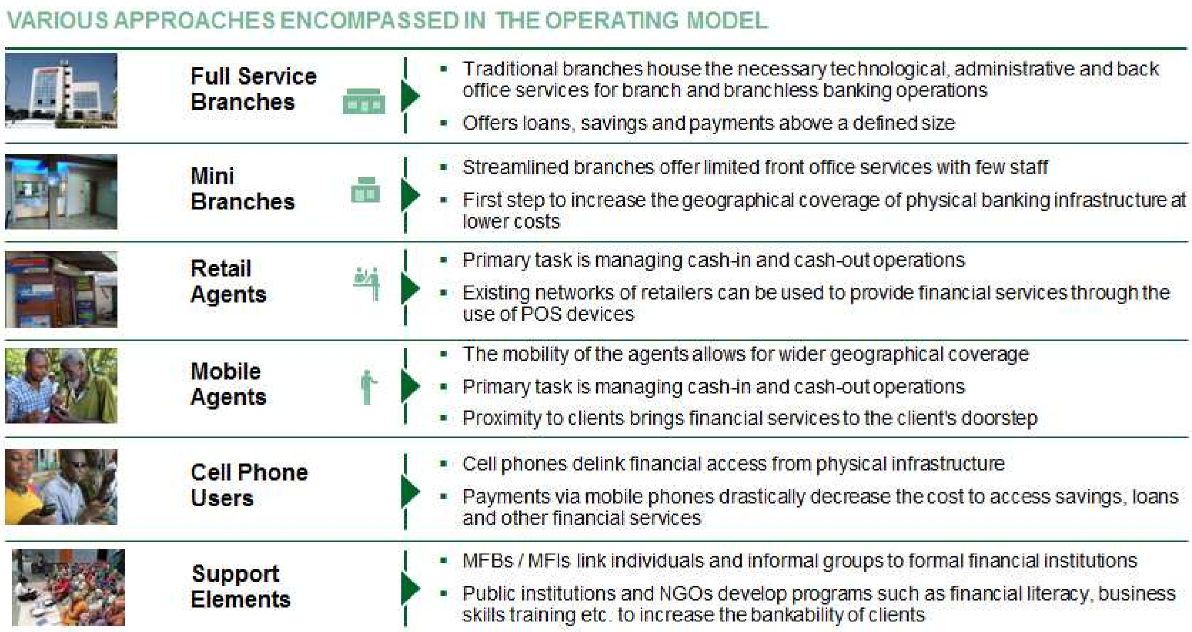


Figure 33: The preferred model combines different elements

2.1.6 Business Case for the Preferred Model

The business case for the Preferred Model indicates that the outreach targets can be achieved through rapid channel expansion in a profitable manner. Mini-branches will play an increasingly important role and their deployment will boost profitability. An exponential increase in the ATM infrastructure will be required to provide further access. Agent transaction fees are expected to be significantly lower than those at branches, so as to incentivise the use of branchless channels. The growth of retail and mobile agents is also expected to be high due to the current high demand. Meeting targets will result in additional pension contributions of NGN 6.8 trillion and insurance premiums of NGN 1.1 trillion via bank branch outlets and agents.

Resources, targets and assumptions for the business case

RESOURCES FOR ANALYSIS

- Market research: IMF data, Euromonitor, CBN
- Roland Berger analysis
- Roland Berger experience with commercial banks
- EFInA Access to financial services in Nigeria 2010 results
- CGAP Branchless Banking database

TARGETS FOR 2020

- Payments: 73.4 mn adults
- Savings: 62.9 mn adults
- Credit: 41.9 mn adults
- Insurance: 41.9 mn adults
- Pensions: 52.4 mn adults

METHODOLOGY AND ASSUMPTIONS

Potential market consists of adults with:

- Income of < NGN 300 per day: 35% of adults
- Income NGN 300 - 1,500 per day: 37% of adults
- Income > NGN 1,500 per day : 11% of adults

Product/ revenue categories

- Integrated savings/loans model plus money transfer and bill payments
- Income from credit, insurance and pensions
- Not reflected in model: "Value added services" such as airtime top-up

Multichannel strategies

- The following channels are modelled: Branches/ATM, Retail agents, and mobile agents (model is agnostic as to whether bank led or third party led)

Deposit assumptions

- 35% - 40% of deposits are assumed to be volatile and are withdrawn over the month, 30% - 35% of deposits are assumed to be sticky over a one year period
- All clients withdraw at least 50% on non-volatile funds in the course of a year for consumption/ investment

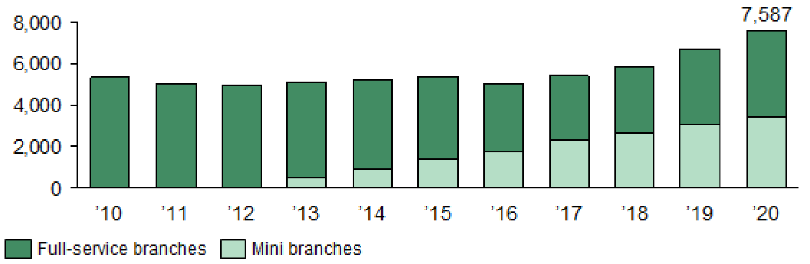
Income and Expenses, NGN	Full service branch	ATM	Mini branch
Number of clients per branch/ ATM	8,000	800	2,500
Revenues:			
Credit spread[1)]	12%-18%	-	-
Fee for bill payments	0	100	0
Fee for sending money	210	-	210
Fee for receiving money	0	0	0
Fee for withdrawals	150[2)]	150[3)]	150[2)]
Expenses:			
Staff costs[4)], mn	34.8	-	17.4
Non-staff running costs, mn	87.0	-	43.5
Cost of new unit (construction)[5)], mn	10.5	0.5	6.1

1) Reduced spread due to cost reduction
2) Charged for withdrawals under NGN 100
3) Charged for ATMs from other banks
4) Annual, based on 10 FTEs at NGN 3.48 mn per year for full service branches and 5 FTEs at NGN 3.48 mn for mini branches
5) Annual, based on 10 year amortization for branches, 5-year amortization for ATM

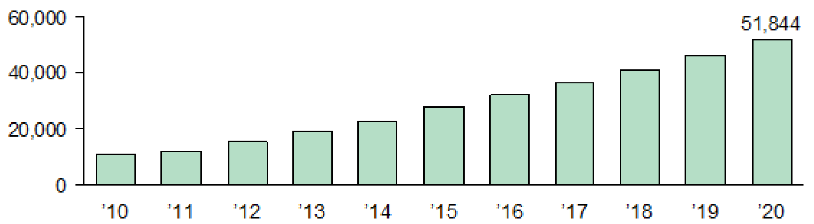
COMMENTS

- Mini-branches are limited service versions of full branches with fewer employees and lower client capacity
- Receiving money transfers and deposits is assumed to be free
- Revenues and expenses for branch and ATM networks are in line with industry averages
- The major revenue driver for the branch network is credit

NUMBER OF BRANCHES



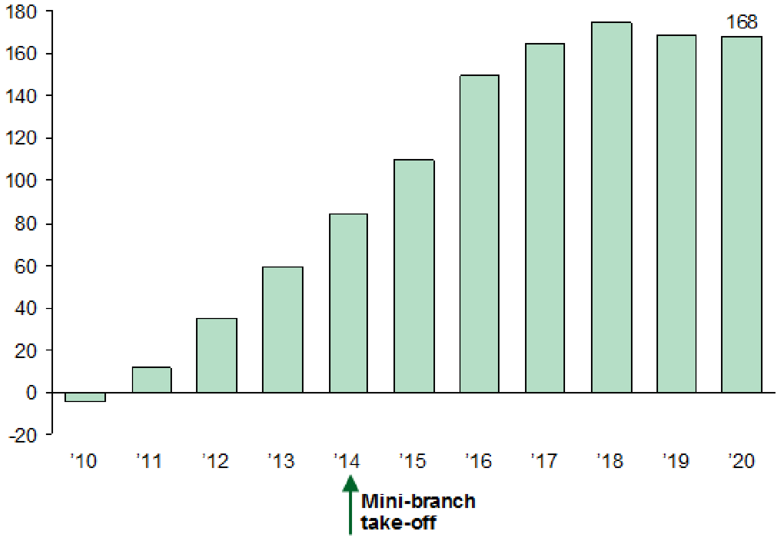
NUMBER OF ATMS ['000]



COMMENTS

- The model assumes reduction of full service branches from 100% to 55% of the entire network
- 26% of all transactional activities (deposits, withdrawals, money transfer, balance enquiry) being conducted in branches in 2020
- Credit will be exclusively branch based
- The ATM network will handle 33% of all cash out activity by 2020

ANNUAL PROFIT PER BRANCH, NGN BN



COMMENTS

- Branch network does not break even on retail business alone
- The model shows the branch and ATM network increasing in profitability – mini branches fully take off by 2014
- Migration of clients to branchless channels reduces transactional income, but revenues will be increase due to interest income from credit
- Focus shifts to high value clients and insurance commissions (46% of all insurance policies sold through branch network)
- Loan loss provisions and a corporate tax of 35% have been factored in

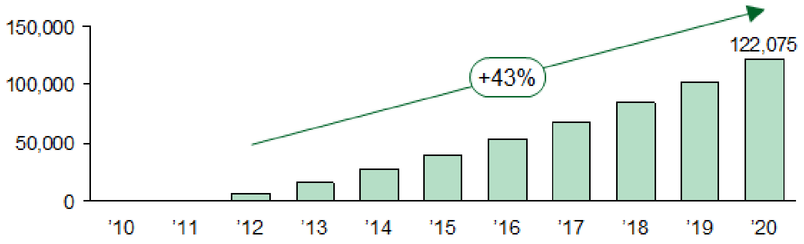
Income and Expenses, NGN	Retail agents	Mobile agents
Number of clients per agent	200	120
Revenues:		
Fee for bill payments	100	100
Fee for sending money	75	75
Fee for receiving money	100	100
Fee for deposits at agent	0	0
Fee for withdrawals at agent	150	150
Bill payments	10	10
Expenses:		
Cost of POS terminal/ mobile phone[1)]	15,000	8,000
Cost of marketing & security improvements[1)]	25,000	25,000
Cost of running the POS/ mobile phone[2)]	263,000	388,000

1) Annual, after 3 year amortization
2) Annual costs (Daily costs: NGN 500 for airtime, NGN 50 for phone/ POS charging, NGN 500 / NGN 1,000 for cash rebalancing for retail agents and mobile agents respectively)

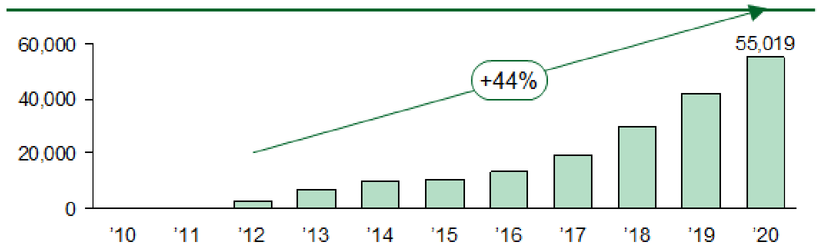
COMMENTS

- Clients per agents is a conservative figure (460 clients per agent in M-pesa)
- Money transfer fees at agents (NGN 75 sending, NGN 100 receiving compared to NGN 215 sending at branches) marginally lower than at branches, but many distribution points will drive usage
- Withdrawal fees match fees for cash out at off-site ATMs
- Cash rebalancing is more frequent for mobile agents (2 trips a day @ NGN 500 per trip for mobile agents compared to 1 trip a day @ NGN 500 per trip for retail agents)
- No credit service at agents is factored in
- Capital expenditure costs are amortized over 5 years

NUMBER OF RETAIL AGENTS



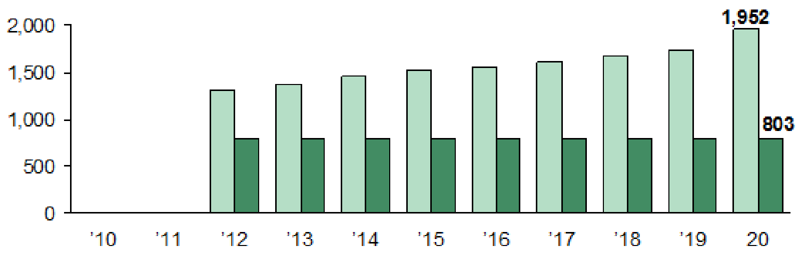
NUMBER OF MOBILE AGENTS



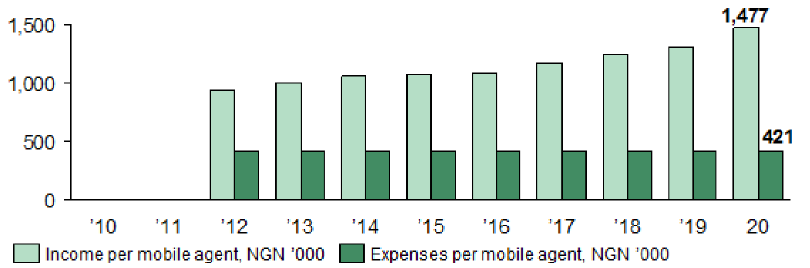
COMMENTS

- More retail agents expected as current merchants move to cashless payments channels (POS)
- Gradual increase in transactions share from 0 in 2011 to 45% share of deposits and 41% of withdrawals and bill payments
- Agent network responsible for 54% of insurance policies sales (outside of insurance agents/ brokers) by value and by 2020, which is up from 0% in 2011

ANNUAL P&L, MOBILE AGENT BANKING, NGN ['000]



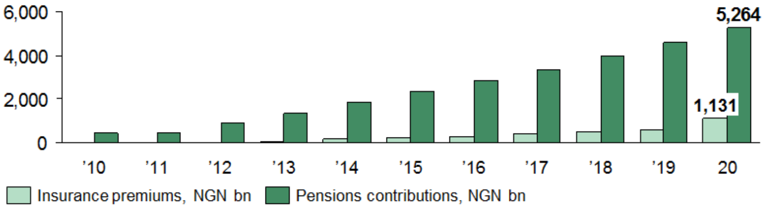
ANNUAL P&L, MOBILE AGENT BANKING, NGN ['000]



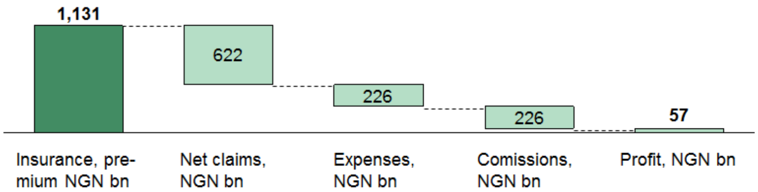
COMMENTS

- Profitability consistent through the years – strong uptake particularly in rural areas expected for transactional products
- Increasing financial inclusion increases the revenue share with little cost effects
- Retail agents can hire 1 FTE to operate the POS terminal exclusively, and still make a profit
- Cash rebalancing costs are included – expected to be higher for mobile agents due to low float capacity and greater cash dependence for mobile agent clients
- For mobile agents, the revenue stream is in addition to regular airtime sales/ small scale retail trade

PENSIONS CONTRIBUTIONS AND INSURANCE PREMIUMS THROUGH BANK AND AGENT CHANNELS [NGN BN]



SPLIT OF INSURANCE PREMIUMS IN LOW-INCOME INSURANCE IN 2020 [NGN '000]



COMMENTS

- Increased uptake of pensions and greater sales of insurance policies via branches and agents will increase product penetration
- Low income insurance sales will provide additional commission income for branch and agent networks and greater profit for insurance companies
- This will demand increased training for branch staff and agents on insurance products, with bank branches selling more than 50% of the value of the policies

OUTREACH Target outreach can be achieved through branch and agent channels with at least 73.4 mn payment clients, 62.9 mn savings clients, 41.9 mn credit clients, 41.9 mn insurance clients and 41.9 mn pensions clients

CHANNEL SIZE Channel size will need to grow from 5,200 branches and 9,500 ATMs to 7,600 branches (with 45% being mini-branches), 52,000 ATMs, 122,000 retail agents and 55,000 mobile agents

PROFI-TABILITY Channel profits from payments, savings, credit, insurance and pensions drive the business case with net after tax profit of NGN 213 bn per branch, NGN 747,000 per retail agent and NGN 687,000 per mobile agent in 2020

REVENUES Increase in revenue for payments services providers (supporting POS and mobile payments), scheme operators for mobile banking implementations, insurance companies and pension fund administrators

2.2 Prioritising the issues

A number of factors are essential in order for the Preferred Model to work. Using information from interviews with stakeholders, various issues have been prioritised according to their importance and the ease of addressing them. These issues directly affect the success of the Preferred Model in achieving the Financial Inclusion targets set. They have been grouped according to the institutions with direct responsibility for their implementation.

2.2.1 Banking

CBN

- Implement a retail agent banking framework
- Commission "proof of concept" pilots to demonstrate the profitability of serving the mass-market/informal segment (banks can then adapt these pilots)
- Increase clarity over regulatory changes, especially policy reversals, e.g. regarding ATM deployment
- Amend KYC regulation to allow a tiered, risk-based system
- Institute shared services initiatives to reduce channel costs
- Expand cash-management initiatives to reduce the cost of banking and free up capacity to serve a wide segment of the population
- Institute plain language and local language requirements to improve consumer awareness and protection
- Incentivise providers to deploy ATMs and POS in rural communities
- Create incentives for MFBs to focus on serving rural communities
- Institute the MDF to increase the funding available to the MFB sector
- Create an interbank platform for MFBs to lend funds to each other
- Increase financial literacy programmes and activities that raise awareness about the availability and benefits of products

Commercial Banks

- Participate in shared service initiatives to reduce channel costs
- Leverage technology to expand reach and reduce costs
- Leverage cash-management initiatives such as Cashless Lagos to reduce transaction costs
- Explore initiatives to serve the mass market profitably
- Revise channel delivery costs to incentivise correct merchant behaviour

Microfinance Banks

- Leverage technology and existing knowledge of remote and/or rural terrain to serve the mass market profitably
- Focus on delivering financial services to the poor and informal segments profitably, to prevent mission drift

Others – Federal government

- The Federal Government must invest in infrastructure, such as a fibre-optic network for the telecommunications sector and solar panels to generate cheap electricity for rural areas

2.2.2 Insurance

NAICOM

- Increase insurance literacy programmes and activities which increase awareness about the availability and benefits of products
- Institute plain language and local language requirements to improve consumer awareness and protection
- Enforce quick settlement of claims and consequences for failure
- Enforce all other regulations, such as compulsory insurance for various sectors and schemes to increase insurance penetration

- Incentivise insurance companies to develop micro-insurance products and serve low-income/rural individuals
- Leverage ongoing work by NIMC to identify individuals and increase the integrity of insurance systems
- Institute periodic impact assessment for schemes within the industry to guide sector focus and boost growth

Insurance companies

- Expand the current insurance offering so that it meets consumer needs better
- Increase the focus on outreach and specific sectors, e.g. lower-income segments

2.2.3 Pensions

PenCom

- Expand and communicate consumer-protection initiatives
- Increase pension literacy programmes and activities which increase awareness about the availability and benefits of products
- Create a pension framework for the informal segment
- Advocate the compulsory inclusion of all states of the federation in the current pension scheme
- Amend regulations to allow the inclusion of smaller firms and cooperatives/associations in the current pension scheme
- Institute plain language and local language requirements to improve consumer awareness and protection

Pension fund administrators

- Leverage technology and expand collection and disbursement methods, e.g. e-channel payments
- Engage cooperatives and associations in order to learn best methods for serving them, and thus expand pension activities

Other

- The Federal Government should set aside part of the budget for social pensions and a minimum guaranteed pension in order to reduce corruption and increase faith in the pension system

2.2.4 Telecommunications to Support Financial Service Delivery

NCC

- Increase investment in infrastructure for the telecommunications sector, e.g. a dedicated percentage of earnings to go to infrastructure; investment in USSD to facilitate low-income inclusion
- Define a plan for the Federal Government to invest in fibre-optic cables along with MNOS

- Mandate dedicated bandwidth for data services to give priority to payments and other e-channels as a temporary measure to drive mobile payments
- Institute and publish statistics on network downtime to incentivise operators to keep the network active

CBN – Banking and payment systems

- Enforce deadline: terminal interoperability and card agnosticism
- Develop an agent banking framework for the banking industry
- Propose expansion of the Evidence Act so that e-payments are accepted as evidence in court
- Reduce the bottleneck in the POS deployment process
- Specify firm targets for independent ATM deployers to put ATM machines within the reach of people and stipulate clear penalties for failure to reach these targets

2.3 Regulatory requirements

In addition to institutional requirements, specific regulations and policies contribute to the pace of Financial Inclusion. Based on our review of such regulations and policies and our discussions with stakeholders, recommendations have been made to amend some regulations and introduce others that will help to accelerate the pace of Financial Inclusion.

2.3.1 Commercial Banks

Change

- A "know your customer" manual: Develop tiered KYC requirements for individuals according to transaction values or account turnover. For example, South Africa introduced lower KYC regulation for *mzansi* transaction accounts and 6 million people entered the financial service industry within 6 years
- Guidelines for the operation and regulation of credit bureaus: Enforce the tracking of both good and bad credit histories and lower the threshold for reporting credit activities by banks to credit bureaus and regulators
- Cashless banking policy: Expand the Evidence Act to accept e-payments as evidence in court

Introduce

- Agent banking framework: Introduce a regulatory framework for agent banking which encompasses both individuals and corporate banking agents. For example, Brazil introduced a framework that led to the creation of 50,000 agents and increased banking penetration significantly, generating a 500% credit increase between 2004 and 2009
- Plain language and local language requirements: Introduce these requirements in order to increase consumer protection. Brazil, Indonesia and Mexico are examples of countries that have specific regulations on the use of plain and unambiguous language by providers, as well as the use of local languages

Continue but enhance

- Guidelines on ATM operations: Review operator charges on ATM withdrawals to ensure that the cashless banking policy does not increase financial exclusion where rates are punitive. Specify firm targets for IADs to put ATMs within the reach of people and stipulate clear penalties for failure to meet targets. ATM deployment: In South Africa, the financial service charter lays out the target of putting "ATMs within 10 km of all South Africans". Mobile payments framework: the UK Minister for Trade and Development, Gareth Thomas, said as follows: "Today, tens of millions of poor people have to spend a considerable amount of time and money just travelling to a bank branch to collect a cash payment from the government. Making these payments electronically will not only make it much more convenient for people to access their money, but will also lower administration costs for governments and reduce the risk of fraud and corruption"
- POS card acceptance service: Reduce bottlenecks in POS deployment and enforce deadlines for terminal interoperability and card agnosticism
- E-payment guideline: The regulation stating that public and private institutions with more than 50 employees must pay salaries electronically should be enforced and applied to all institutions with more than 10 employees
- Mobile payments: Lobby the government to make G2P (such as NYSC allowances) via the mobile channel to increase awareness and use. Ensure POS are able to handle insurance/pension payments. Relax the role of telcos in mobile banking payments to encourage innovation. Allow telcos to advertise on payment platforms as an incentive for their participation

2.3.2 Microfinance Banks

Change

- Microfinance development fund: the N50 Billion fund launched in 2008 should be funded and activated immediately to provide much-needed funding for the microfinance sector

Introduce

- Inter-bank platform: Establish an inter-bank platform that will encourage microfinance banks to lend to each other
- Agent banking: Introduce a regulatory framework for microfinance agent banking that could increase the linkage of rural cooperatives to microfinance banks. For example, the Kenyan regulatory framework released in 2010 allows agency banking for MFBs to increase financial service access to low-income groups

Continue but enhance

- Revised microfinance policy framework: Enforce the extension of interest drawback programmes to microfinance banks
- Linkage models: Increase support for initiatives such as RUFIN, which increase the access of rural savings cooperatives to microfinance banks

2.3.3 Pensions

Introduce

- Informal sector framework for pensions: Define a framework for the participation of the informal segment in the pension scheme. For example, Chile introduced a public risk-pooling device in 2008 financed by VAT tax revenue, which guarantees a minimum pension to all Chileans over the age of 65
- E-channel payments: Leverage the current mobile payment framework in the banking sector to ease the contribution and disbursement of pension benefits. This would be especially useful for geographically dispersed and low-income segments
- Social pensions: The Federal Government should contribute to a social pension fund to guarantee a minimum amount for indigenes after a set number of years. This will reduce corruption and dependency in old age
- Plain language and local language requirements: Introduce these requirements to increase consumer awareness and protection

Continue but enhance

- Agents: Expand the regulatory framework to define collaboration with banking and insurance agents for collecting contributions and disbursing payments
- 2004 PRA: Amend the Act to mandate states to comply with 2004 PRA to ensure that workers in states outside the FCT and other than the 8 that currently participate can benefit from the scheme
- Participation of small firms and cooperatives: Expand the Act to allow small firms with fewer than 5 members of staff to participate, as well as informal associations and cooperatives
- Compulsory group life insurance: Collaborate with NAICOM to enforce compliance with the directive on group life insurance for employees

2.3.4 NIPOST

Change

- Regulatory model: Follow through with the proposed Bill. NIPOST cannot thrive as its own regulator and should be integrated into the National Communications Commission/Ministry of Information Technology

Introduce

- Shared service plan to provide a backbone for the agency model and other shared service infrastructure
- Integrated financial services delivery model to enable banks, insurance companies and pension fund administrators to leverage the presence and logistics know-how of NIPOST so as to reach a wider segment of the population with financial services. India is a strategic partner of the Bank of India on Financial Inclusion and operates a multi-partner agency model, regulated by a separate ministry, the Department of Posts. The Tanzania Posts corporation and the Zambia Postal Corporation provide financial services as agents of commercial banks

2.3.5 Insurance

Change

- KYC requirement: Leverage the National Identity Management Commission to strengthen and simplify the current KYC requirement of the insurance industry

Introduce

- Micro-insurance framework: Create simple, low-value schemes that can be purchased easily, e.g. scratch cards. Create simple regulation for low-value insurance, e.g. starter packs that can be sold and activated by agents to guide micro-insurance. KYC: Kenyan regulation allows easy policy activation via text message (SMS); a national ID scheme enabled easy, uniform identification which was not onerous
- Partnerships: Collaborate with professional bodies such as the Nigerian Society of Engineers to enforce construction insurance, and with CBN to amend the mobile payments framework to enable the conversion of airtime pay micro-insurance premiums. Develop agreements with MNOs to drive the use of e-channel and specify profit-sharing arrangements. Partnerships: In Columbia, for example, there is a partnership between Mapfre and Codensa (the largest electricity company) to increase the use of insurance by electricity consumers
- Insurance literacy programmes: To create awareness of the benefits of insurance, a curriculum on insurance should be developed and introduced to secondary schools nationwide. Micro-insurance: in South Africa, for example, regulation allowed the conversion of airtime to insurance premium payments

Continue but enhance

- MDRI: Enforce mandatory insurance and collaborate with PENCOM to enforce group life schemes

2.3.6 Telecommunications

Introduce

- Definite plan for Federal Government investment in fibre-optic cables along with MNOs. Accruals from mobile licence sales to be channelled into network improvement and expansion. Most developed economies: investment in telecommunications infrastructure
- Publish statistics on network downtime for the various network operators to incentivise operators to keep the network active

Continue but enhance

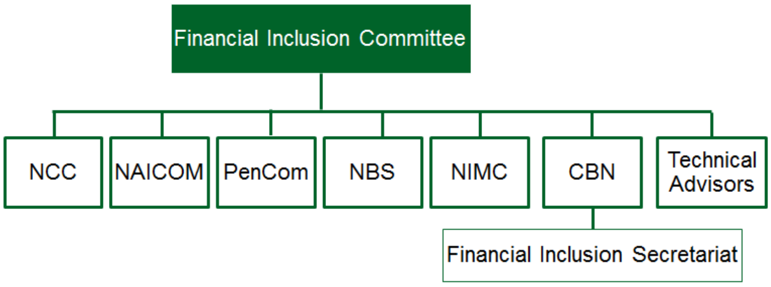
- NCC: Mandate dedicated bandwidth for data services to give priority to payment and other e-channels as a temporary measure to drive mobile payments

Government's priorities with regard to enhancing Financial Inclusion should be as follows:

- Maintain macro-economic stability
- Integrate **access** into the objectives of regulation and supervision
- Create appropriate banking regulations and supervisory practices – instruct all supervised financial institutions to collect and report data on the **use** of financial services
- Give priority to those elements of **financial infrastructure** that are essential to increasing the use of financial services
- Invest in **financial literacy** initiatives to increase awareness – move beyond current capacity-building initiatives and towards more segmented or targeted literacy programmes

- Increase consumer **information** and hence protection
- Establish a **Financial Inclusion Secretariat** to evaluate all subsidies and propose changes to consolidate and discontinue where necessary and monitor all activities that contribute to Financial Inclusion

3. Stakeholder Roles and Responsibilities



FINANCIAL INCLUSION COMMITTEE

- The Financial Inclusion Committee will review the progress of Financial Inclusion in Nigeria and provide a report to the presidency

FINANCIAL INCLUSION SECRETARIAT

- The secretariat will be responsible for tracking & monitoring Financial Inclusion levels and global trends in Financial Inclusion

REGULATORS

- The six regulators whose activities will drive Financial Inclusion will provide bi-annual / annual data to the secretariat for tracking

TECHNICAL ADVISORS

- These will include local and international experts on Financial Inclusion who will serve the Committee on a purely advisory role

OTHERS

- Institutions such as banks, insurance companies, NIPOST, Pension Fund Administrators etc. will play a significant role in increasing access of financial services and data from these institutions, via their regulators will be compiled and distilled by the secretariat

Figure 34: Overview of institutions responsible for financial inclusion

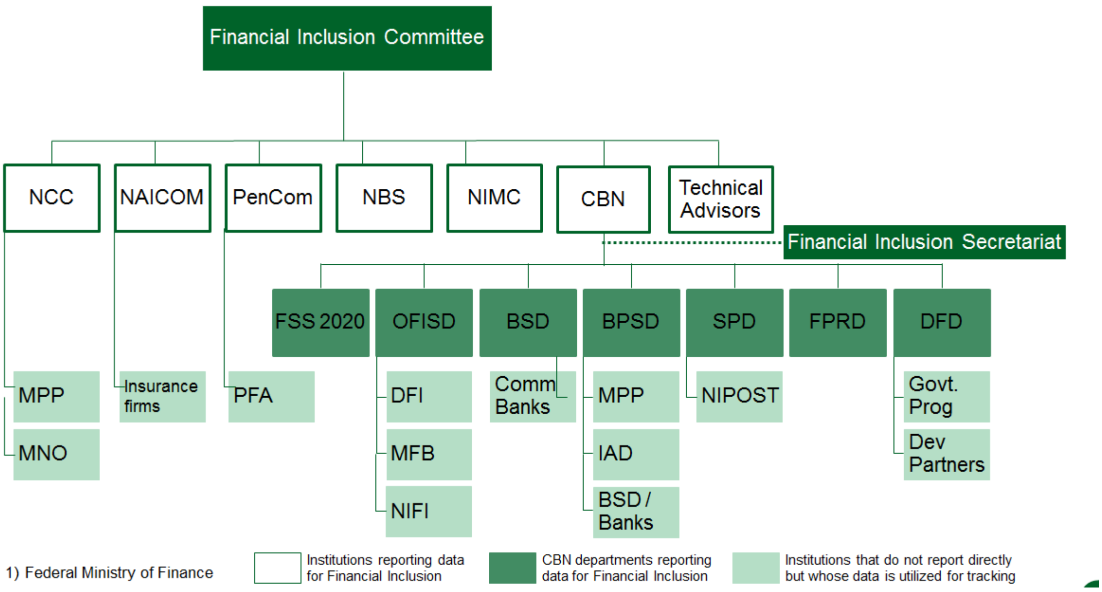


Figure 35: Institutional dependencies for financial inclusion

IMPORTANT DATES

- **30 June**: Cut-off date for data from 01 January to 30 June
- **31 July**: Submission date for all information for 01 January to 30 June from the providers to their respective regulators / apex associations
- **31 August**: Submission date for all information for 01 January to 30 June, from regulators to the Financial Inclusion Secretariat
- **21 September**: Final date for Financial Inclusion Secretariat to have updated information on Q1 - 01 January to 30 June
- Last Tuesday in September: Financial Inclusion committee meeting

- **31 December**: Cut-off date for data from 01 July to 31 December
- **31 January**: Submission date for all information for 01 July to 31 December from the providers to their respective regulators / apex associations
- **28 February**: Submission date for all information for 01 July to 30 December, from regulators to the Financial Inclusion Secretariat
- **21 March**: Final date for Financial Inclusion Secretariat to have updated information on Q2 - 01 July to 31 December
- Last Tuesday in March: Financial Inclusion committee meeting

3.1 Financial inclusion committee

- *Proposed roles*
  - To have oversight responsibility for coordinating stakeholders towards the goal of increasing Financial Inclusion
  - To discuss trends in Financial Inclusion
  - To review actual figures versus the targets set for Financial Inclusion
  - To identify and discuss issues as they pertain to various industries and stakeholders of Financial Inclusion
  - To identify and highlight potential synergies between stakeholders and, where required, to propose regulatory changes to facilitate growth
  - To review and revise the roles and responsibilities of stakeholders as required
  - To appoint consultants, where necessary, to revise estimates and targets if actual market conditions require such changes
  - To ensure that the challenge of identification of citizens, which hinders Financial Inclusion, is resolved and best practices promoted

- *Requirements for strengthening Financial Inclusion*
  - The activities of the Financial Inclusion Committee shall be coordinated by the Financial Inclusion Secretariat at CBN – DFD
  - Prompt submission of data by all stakeholders to the Financial Inclusion Secretariat

– Attendance at twice yearly meetings by Committee Members

- *Data to be circulated*
  – Aggregated report on the level of national Financial Inclusion
  – Minutes of meetings
  – Resolutions and action items from meetings
  – Any other updates to stakeholders (as required)

- *Frequency of circulation*
  – Reports from Committee meetings should be compiled and made available by the Secretariat by the following dates:
    – **First week of October** (for January 1 to June 30)
    – **First week of April** (for July 1 to December 31)

MEMBERSHIP

- **Core members**
  – CBN (1)
  – National Insurance Commission (1)
  – National Pension Commission (1)
  – Nigerian Communications Commission (1)
  – Development Partners (GIZ) (1)
  – National Identity Management Commission (1)
  – Federal Ministry Education (1)
  – National Planning Commission (1)
  – Bankers committee (1)
  – Apex association of MFBs (1)
  – Apex association of MFIs (1)
  – NIPOST (1)

Core members are required at all bi-annual or extra-ordinary meetings
Affiliate members will receive reports from meeting and may be invited to specific meetings

OTHER INSTITUTIONS

- **Affiliate members**
  – Nigerian Insurers association
  – Apex association of Pension providers
  – National Bureau of Statistics
  – Representative of linkage groups (RUFIN)
  – Bank of industry
  – Bank of Agriculture
  – NEXIM
  – Federal Mortgage Bank
  – SMEDAN
  – Federal ministries of Finance, Agriculture, Trade & Investment
  – Securities & Exchange Commission
  – Nigerian Deposit Insurance Commission
  – National Assembly
  – National Directorate of Employment

Figure 36: Membership of the Financial Inclusion Committee

3.2 Financial inclusion secretariat

Proposed roles

- To store information on Financial Inclusion in Nigeria and global trends in Financial Inclusion
- To gather data from regulators who report aggregate data annually or half-yearly to enable comprehensive monitoring of Financial Inclusion
- To track and monitor progress on Financial Inclusion with regard to the Financial Inclusion targets

Requirements for monitoring Financial Inclusion

- The CBN shall coordinate tracking of Financial Inclusion
- Deployment of a team of at least 3 people to the Secretariat (under DFD) to coordinate all activities related to Financial Inclusion
- Prompt aggregation of data received from regulators
- Follow-up and close monitoring to ensure that each regulator delivers accurate data when due
- Update information on the website and the CBN database
- Develop content for Financial Inclusion Committee meetings
- Circulate minutes and reports and monitor the fulfilment of action items

Requirements for data submission and collection

- Each provider (e.g. bank, insurance company, PFA, MPP, MNO, DFI) and supporter (e.g. development partner, DFI) has one month to submit data to the relevant regulator or apex association (if this data is not already part of that currently submitted to the regulator in question)
  - **January 1** to June 30 data should be sent by the provider to the regulator or association by July 31
  - **July 1** to December 31 data should be sent by the provider to the regulator or association by January 31
- Each enabler – regulator or apex association (e.g. CBN, NAICOM, PENCOM, NCC etc.) – has one month to collate and submit data to the Financial Inclusion Secretariat
  - **January 1** to June 30 data should be sent by the regulator, association or anchor by August 31
  - **July 1** to December 31 data should be sent by the regulator or association by February 28
- The Secretariat has three weeks to collate all the information received for each half-year and must ensure that data is available ahead of the half-yearly Committee meetings

Frequency of data update

- Data should be compiled and made available by the Secretariat within three months of the end of the preceding half year:
  - **21 September** (for January 1 to June 30 information)
  - **March 21** (for July 1 to December 31 information)
- Financial Inclusion Committee meetings should be held during the last week of the quarter after the half year to be examined, i.e.:

– **First half year:** end of March
– **Second half year:** end of September

DATA SOURCE	INFORMATION
▪ Banking: savings, credit, payment – CBN Banking Supervision Department – CBN Development Finance Department – CBN OFISD – CBN Financial Policy & Regulation	▪ Savings, Credit, Payment – Branches, Products, client numbers – Intervention funds, schemes, other funds – Specialized banks – branches, products, client numbers – New and / or discontinued regulation and policy
▪ Mobile / Branchless banking – CBN Banking and Payments Systems Department – CBN Strategy and Performance Department – Nigerian Communications Commission	▪ Alternative distribution channels – Branchless banking channels, transaction volumes – List of available services and number of users – Robustness of system, operator downtime, client numbers
▪ Insurance – National Insurance Commission – Nigerian Insurers association	▪ Insurance – Insurance products, product utilization, client numbers – Total insurance premiums received
▪ Pension – National Pension Commission – Apex association of pension providers	▪ Pension – Pension penetration – Aggregate data on pension contribution
▪ Identification – National Identity Management Commission	▪ KYC / – Number of persons with national ID cards
▪ Other – National Bureau of Statistics – EFInA (biennial data)	▪ Others – Financial literacy: adult and youth levels – Consumer protection level

3.3 Regulators

3.3.1 Nigerian Communications Commission

Key role

- Create an enabling environment for competition between operators in the industry and ensure the provision of qualitative and efficient telecommunications services throughout the country

Proposed roles for increasing Financial Inclusion

- Drive investment in transmission technology and sector infrastructure
- Collaborate with CBN to amend the existing mobile payments framework to drive interoperability among payment systems
- Ensure that mobile network operators prioritise m-payment data transmission
- Promote agent banking channels once the framework is developed
- Ensure simple technology for m-payments is accessible to low-income clients

Requirements for monitoring Financial Inclusion

- Institution
  - The NCC shall supply all information regarding mobile network matters for the purpose of tracking and monitoring Financial Inclusion
- Individual
  - One officer from the NCC shall be responsible for matters pertaining to Financial Inclusion; this officer shall be fairly senior (above grade level twelve)
  - The Officer will be responsible for all data aggregation and submission to the Financial Inclusion Secretariat
  - The Officer shall be responsible for monitoring targets and actual figures for the industry
  - The Officer shall be supervised within the NCC to ensure that the data presented is accurate and a true representation of the industry; the Officer shall also submit regular updates to the Executive Vice Chairman or a Director of the NCC
- Leadership
  - The DG or a Director of the NCC shall be a member of the Financial Inclusion Committee, i.e. the NCC shall have 1 seat on the Board of the Financial Inclusion Committee
  - The DG or Director shall attend the half-yearly Financial Inclusion Committee meetings to review progress and discuss pertinent issues with regards to Financial Inclusion

Data to be reported

- Total active mobile subscribers for industry
- Total number of m-payment transactions for industry
- Total volume of m-payment transactions for industry
- Percentage of network downtime for industry
- Number of m-payments handled
- Number and type of complaints received with regards to m-payments, and the providers

Frequency of data collection

- Data shall be submitted to the Secretariat twice yearly:
  - **August 31** for data from January 1 to June 30
  - **February 28** for data from July 1 to December 31

Frequency of collection

- Data shall be compiled by mobile network providers twice yearly:
  - **January 1** to June 30
  - **July 1** to December 31
- Data shall be submitted to the NCC within one month, i.e. on or before:
  - **July 31**
  - **January 31**
- Data received from mobile network providers shall be aggregated by the NCC and submitted to the Financial Inclusion Secretariat within one month, i.e. on or before:
  - **August 31**
  - **February 28**

3.3.2 National Insurance Commission

Key role of the institution

- Regulate and supervise the conduct of insurance businesses in Nigeria

Proposed roles for increasing Financial Inclusion

- Implement insurance reforms in order to drive consolidation and increase robustness and ensure international best practice
- Enforce compliance with mandated insurance products for both public and private institutions
- Eradicate illegal insurance agents and policies from the market
- Promote micro-insurance and Islamic insurance products
- Promote insurance literacy and awareness programmes
- Aggregate and analyse industry data to track the progress of Financial Inclusion with respect to the insurance sector

Requirements for monitoring Financial Inclusion

- Institution
  - NAICOM shall supply all information regarding insurance for the purpose of tracking and monitoring Financial Inclusion
- Individual
  - One officer from NAICOM should be responsible for matters pertaining to Financial Inclusion; the Officer shall be above grade level ten
  - The Officer will be responsible for all data aggregation and submission to the Financial Inclusion Secretariat
  - The Officer shall be responsible for monitoring targets and actual figures for the industry

  - The Officer shall be supervised within NAICOM to ensure that the data presented is accurate and a true representation of the industry; the Office shall also submit regular updates to the DG or a Director of NAICOM
- Leadership
  - The DG or a Director of NAICOM shall be a Member of the Financial Inclusion Committee, i.e. NAICOM shall have 1 seat on the Financial Inclusion Committee
  - The DG or Director shall attend half-yearly Financial Inclusion Committee meetings to review progress and discuss pertinent issues with regards to Financial Inclusion

Data to be reported

- Total number of people per insurance product for industry
- Total number of products per person for industry
- Total premium per product for period under review for industry
- Total claims paid per product for period under review for industry
- Aggregated list of companies that have mandated insurance products compared to a list of companies that are required to purchase products
- Number of seminars or town-hall meetings held during the period under review, by state

Frequency of collection

- Data shall be compiled by insurance providers twice yearly:
  - **January 1** to June 30
  - **July 1** to December 31
- Data shall be submitted to NAICOM within one month, i.e. on or before:
  - **July 31**
  - **January 31**
- Data received from insurance providers shall be aggregated by NAICOM and submitted to the Financial Inclusion Secretariat within one month, i.e. on or before:
  - **August 31**
  - **February 28**

3.3.3 National Pension Commission

Key role

- Promote a sustainable pension industry by ensuring the safety of pension assets, a fair return on investment and prompt payment of retirement benefits

Proposed roles for increasing Financial Inclusion

- Cater to the informal sector by drafting relevant regulatory guidelines
- Enforce compliance of private and public institutions companies to remit pension contributions and provide the accompanying payment schedule in a timely manner
- Broaden the range of investable instruments that pension fund administrators can leverage and maintain prudential oversight and restrictions

- Implement a pension identification scheme to avoid current double counting (potential collaboration with NIMC to leverage national identification numbers for the purpose of retirement savings accounts)
- Aggregate data on industry to aid monitoring of Financial Inclusion

Requirements for monitoring Financial Inclusion

- Institution
  - PenCom shall supply all information regarding pension matters for the purpose of tracking and monitoring Financial Inclusion
- Individual
  - One officer from PenCom shall be responsible for matters pertaining to Financial Inclusion: this Officer shall be above grade level twelve
  - The Officer will be responsible for all data aggregation and submission to the Financial Inclusion Secretariat
  - The Officer shall be responsible for monitoring targets and actual figures for the industry
  - The Officer shall be supervised within PenCom to ensure that the data presented is accurate and a true representation of the industry
- Leadership
  - The DG or Director shall be a Member of the Financial Inclusion Committee, i.e. PenCom shall have one seat on the Financial Inclusion Committee
  - The DG or Director shall attend half-yearly Financial Inclusion Committee meetings to review progress and discuss pertinent issues with regards to Financial Inclusion

Data to be reported

- Total number of retirement savings accounts that are active for all PFAs
- Total number of funds/schemes that all PFAs offer
- Total pension contribution for all PFAs for the period under review
- Total pension disbursements for all PFAs for the period under review
- Total pension assets for the industry as at the end of review period
- Number of seminars/town-hall meetings held during the period under review, by state

Frequency of data collection

- Data for Financial Inclusion shall be compiled by PFAs twice yearly:
  - **January** 1 to June 30
  - **July 1** to December 31
- Data shall be submitted to PenCom within one month, i.e. on or before:
  - **July 31**
  - **January 31**
- Data received from PFAs shall be aggregated by PenCom and submitted to the Financial Inclusion Secretariat within a month, i.e. on or before:
  - **August 31**
  - **February 28**

3.3.4 National Bureau of Statistics

Key role

- Provide accurate, reliable and current macroeconomic data

Proposed roles in increasing Financial Inclusion

- To conduct surveys of the level of financial literacy and consumer protection in the financial services sector annually
- To conduct surveys on M/SMEs in order to establish a credible and up-to-date database for this sub-sector

Requirements towards the Financial Inclusion Committee

- Supplying data on the level of financial literacy nationwide annually
- Supplying data on the level of consumer protection nationwide
- Supplying data on the aggregate number of M/SMEs annually
- Supply data on the affordability and appropriateness of financial services

Data to be reported

- Level of financial literacy nationwide and by federal state
- Level of consumer protection in financial services, i.e. for those using banks, insurance and pension products
- Level of banked and financially included persons annually, by state
- Level of unbanked and financially excluded persons annually, by state

Frequency of data collection

- Data shall be submitted to CBN – the Financial Inclusion Secretariat:
  - **July 31** for data from January 1 to June 30
  - **January 31** for data from July 1 to December 31

3.3.5 National Identity Management Commission

Key role

- Establish and regulate a reliable and sustainable system of national identity management enabling citizens and legal residents to prove their identity

Proposed roles in increasing Financial Inclusion

- Implement the NIMC registration pilot project to register 100 million Nigerians in 30 months, assign unique national identification numbers and provide identification cards
- Launch a full registration programme nationwide
- Track the number of persons registered and the number of ID cards
- Collate all identity information in one central secure database

Requirements for monitoring Financial Inclusion

- Institution
  - NIMC shall supply all information regarding national identification matters for the purpose of tracking and monitoring Financial Inclusion
- Individual
  - One officer from NIMC shall be responsible for matters pertaining to Financial Inclusion; this Officer shall be above grade level twelve
  - The Officer will be responsible for all data aggregation and submission to the Financial Inclusion Secretariat
  - The Officer shall be responsible for monitoring targets and actual figures for the Commission
  - The Officer shall be supervised within NIMC to ensure that the data presented is accurate and a true representation of the industry; the Office shall also submit regular updates to the DG or a Director of NIMC
- Leadership
  - The DG or Director of NIMC shall be a Member of the Financial Inclusion Committee, i.e. NIMC shall have 1 seat on the Financial Inclusion Committee
  - The DG or Director shall attend half-yearly Financial Inclusion Committee meetings to review progress and discuss pertinent issues with regards to Financial Inclusion

Data to be reported

- Number of people registered in the period under review
- Number of ID cards provided in the period under review
- Total number of Nigerians with national identity cards

Frequency of data collection

- Data shall be submitted to the Secretariat twice yearly:
  - **August 31** for data from January 1 to June 30
  - **February 28** for data from July 1 to December 31

*F*requency of collection

- Data shall be compiled by NIMC twice yearly:
  - **January 1** to June 30
  - **July 1** to December 31
- The data collected shall be submitted to the Financial Inclusion Secretariat within one month of the end of the half-year under review, i.e. on or before:
  - **July 31**
  - **January 31**

3.3.6 Central Bank of Nigeria

3.3.6.1 CBN – Development Finance Department

Key role

- Development and implementation of various initiatives that enable the sustainable delivery of financial services to special sectors of the economy

Additional roles in increasing Financial Inclusion

- Conduct a periodic impact assessment for existing schemes, funds and initiatives relevant for FI for incorporation into an overall tracking mechanism
- Support capacity-building initiatives that promote financial literacy
- Work with NDE to develop a programme for financial literacy that will be integrated into their capacity-building and training programmes
- Deploy a team of three people to coordinate the Financial Inclusion Secretariat on a permanent basis and all other related matters

Requirements for monitoring Financial Inclusion

- Aggregate data on developmental schemes (credit enhancement and savings inducement) to aid monitoring of Financial Inclusion
- The Director of DFD shall serve as Executive Secretary to the Financial Inclusion Committee

Data to be reported

- Status of disbursement of each fund or scheme that is active at DFD
- Status of disbursement of each fund or initiative of other government institutions
- Number of individuals or institutions that benefited from all the listed initiatives, funds or schemes within the period
- Number of seminars or capacity-building events held during the period under review
- Development partner funding and grants

Frequency of data collection

- Data shall be submitted to the Secretariat twice yearly:
  - **August 31** for data from January 1 to June 30
  - **February 28** for data from July 1 to December 31

3.3.6.2 CBN – Banking Supervision Department

Key role

- Developing standards for examining and supervising deposit money banks, monitoring issues and providing reports on obstacles and enablers

Additional roles in increasing Financial Inclusion

- Tracking branch infrastructure and the number and type of branches within the network of all banks

- Tracking and reporting aggregate data on the number of clients using different products (savings, credit, payments) and the amounts disbursed or accumulated in each

Requirements for monitoring Financial Inclusion

- Supply data on branch infrastructure and product availability
- Supply aggregate data on the amounts in each product for the banking industry (commercial, merchant and specialised banks)
- Savings
- Credit
- Payments

Data to be reported

- Total number of branches; traditional and mini, i.e. fewer than 5 staff members
- Number of branches grouped by the various banking institutions and broken down into states, LGAs), etc.
- Number of clients using products
- Available product types per bank and amounts committed
- Savings
- Credit
- Payments

Frequency of data collection

- Data shall be submitted to the Secretariat twice yearly:
  - **August 31** for data from January 1 to June 30
  - **February 28** for data from July 1 to December 31

3.3.6.3 CBN – Other Financial Institutions Supervision Department

Key role

- Developing standards for examining and supervising credit bureaus and other specialised institutions, such as MFBs

Proposed roles in increasing Financial Inclusion

- Tracking the contribution of other financial institutions to Financial Inclusion

Requirements for monitoring Financial Inclusion

- Supply data on branch infrastructure and product availability for specialised banks – MFBs and NIFI
- Supply aggregate data on the amounts in each product category for the specialised banking industry
- Savings
- Credit
- Payments

Data to be reported

- DFIs' intervention funds and the number of beneficiaries of each
- Number of MFBs/NIFI branches broken down by states, local government area and municipality
- Total number of customers served by microfinance banks
- Total amount per product category at MFBs, NIFI and primary mortgage institutions
- Savings
- Credit

Frequency of data collection

- Data shall be submitted to the Secretariat twice yearly:
  - **August 31** for data from January 1 to June 30
  - **February 28** for data from July 1 to December 31

3.3.6.4 CBN – Banking and Payment Systems Department

Key role

- To develop and monitor the national payment system policy and the deployment of the CBN payment systems

Additional roles in increasing Financial Inclusion

- To actively track the number of agents and branchless banking distribution channels nationwide
- To monitor the status of the branchless banking infrastructure and provide accurate data on its size and reliability
- To evaluate current trends in technology and recommend updates
- To interfacing with MNOs to enhance their support for Financial Inclusion

Requirements for monitoring Financial Inclusion

- Develop an agent banking guideline or framework
- Supply aggregate data on agent networks and other branchless banking channels to aid the monitoring of access to and availability of delivery channels

Data to be reported

- Total number of agents nationwide
- Number of agents broken down by state, local government area and municipality
- Total number of ATMs and POS
- Number of ATMs and POS broken down by state, local government area and municipality

Frequency of data collection

- Data shall be submitted to the Secretariat twice yearly:
  - **August** 31 for data from January 1 to June 30
  - **February** 28 for data from July 1 to December 31

3.3.6.5 CBN – Strategy and Performance Department

Key role

- To provide strategic planning, performance management and business management to the Central Bank

Proposed roles in increasing Financial Inclusion

- To provide periodic performance management to the Financial Inclusion Secretariat to ensure that tracking and reporting are performed properly
- To coordinate with NIPOST and report on activities related to financial services engaged in by NIPOST
- To provide quality control on the data represented
- To provide a periodic review of overall strategy to ensure that targets are realistic and in line with the global situation

Requirements for monitoring Financial Inclusion

- Measuring actual and target performance for the defined channels and products in order to achieve a level of 70% Financial Inclusion by 2020

Data to be measured

- Actual vs. target figures for all products and channels
- Breaches in compliance and/or monitoring
- Material or unusual findings from the tracking and measurement of targets
- List and size of financial services activities handled by NIPOST

Frequency of measurement

- Data compiled by the Secretariat shall be checked at least twice yearly, by:
  - **September 23** for data from January 1 to June 30
  - **March 23** for data from July 1 to December 31

3.3.6.6 CBN – Financial Policy and Regulation Department

Key role

- To ensure that the regulations and policies developed by the bank are robust and achievable

Proposed roles in increasing Financial Inclusion

- To track bank-wide regulations and policies and ensure that an updated list of these is kept
- To track and report information on credit bureaus
- To ensure that banks fully understand the opportunities and restrictions of the new regulations
- To communicate regulatory changes and how they impact on Financial Inclusion to stakeholders

Requirements for monitoring Financial Inclusion

- Supply information on new policies and CBN regulations impacting on Financial Inclusion
- Supply information on repealed CBN regulations and policies impacting on Financial Inclusion
- Supply information on newly licensed credit bureaus and withdrawn licences for credit bureaus

Data to be reported

- List of new regulations and policies impacting on Financial Inclusion
- List of existing credit bureaus and details of the type of information tracked

Frequency of data collection

- Data shall be submitted to the Secretariat twice yearly:
  - **August 31** for data from January 1 to June 30
  - **February 28** for data from July 1 to December 31

3.3.6.7 CBN – FSS 2020

Key role

- To monitor the progress of initiatives proposed in FSS 2020

Proposed roles in increasing Financial Inclusion

- To leverage the information in the Financial Inclusion Secretariat to track the indices monitoring progress towards the goals outlined in Vision 20:20/20
- To track and report on the status of initiatives proposed in the FSS 2020 strategy document
- To provide support to the Financial Inclusion Secretariat by providing additional capacity to the team, e.g. secondment of a staff member to assist the team in carrying out its functions efficiently or anchoring the activities of the Financial Inclusion Secretariat

Requirements for monitoring Financial Inclusion

- Closely monitor the state of initiatives proposed in the FSS 2020 strategy document

Data to be reported

- List of initiatives proposed in the FSS 2020 strategy document
- State or current level of achievement of each initiative
- Funding received or disbursed by the FSS 2020 Secretariat

Frequency of data collection

- Data shall be submitted to the Secretariat twice yearly:
  - **August 31** for data from January 1 to June 30
  - **February 28** for data from July 1 to December 31

3.4 Others

3.4.1 Mobile Payment Providers

Key role

- Provide e-channels for mobile payments by consumers

Proposed roles in increasing Financial Inclusion

- Provide low-cost payment services to the mass market
- Drive awareness and understanding of the product/channel
- Increase penetration nationwide, particularly in rural areas
- Develop robust and secure agent networks nationwide, with a focus on rural areas
- Report adequate and timely information to CBN to support tracking and monitoring of Financial Inclusion

Potential collaborations

- Partner with banks to offer m-payment services and broaden the range of mobile financial services offered
- Partner with insurance firms to offer m-payment services
- Partner with pension institutions to develop m-payment services

Data to be reported

- Number of customers
- Number and volume of transactions in the period under review

Frequency of data collection

- Data shall be collected twice yearly for the periods:
  - **January 1** to June 30
  - **July 1** to December 31
- Data shall be submitted to the Banking & Payment Systems Department of CBN within 1 month, i.e. on or before July 31 or January 31

3.4.2 Insurance companies

Key role

- Provide insurance products and services tailored to market requirements

Proposed roles in increasing Financial Inclusion

- Increase penetration of insurance products nationwide
- Broaden the footprint of insurance penetration in peri-urban and rural areas
- Broaden the scope of insurance products and increase cross-selling
- Develop products tailored to middle- and low-income segments
- Develop micro- and agri-insurance products
- Promote insurance literacy and awareness
- Provide services to clients and potential clients in indigenous languages

- Report adequate and timely information to NAICOM to support Financial Inclusion tracking and monitoring

Potential collaborations

- Partner with mobile payment providers to access mobile channels for collecting insurance premium payments
- Partner with NIPOST to leverage the national branch network for the collection and disbursal of insurance payments
- Partner with linkage institutions to reach low-income and rural segments
- Partner with retail agents to promote insurance products and facilitate the collection of insurance premiums

Data to be reported

- Number of customers per product
- Average number of products per customer (individuals)
- Total premium income per product category
- Total claims paid per product
- List of companies that have purchased mandatory insurance products (e.g. group life)
- Number of seminars or town-hall meetings within the half year

Frequency of data collection

- Data shall be collected twice yearly, for the periods:
  - **January 1** to June 30
  - **July 1** to December 31
- Data shall be submitted to NAICOM within one month in, i.e. on or before:
  - **July 31**
  - **January 31**
- Data for the period January 1 to June 30 must be submitted to NAICOM by the following July 31 and data for the period July 1 to December 31 must be submitted to NAICOM by the following January 31

3.4.3 Pension Fund Administrators

Key role of the institution

- Provide retirement savings accounts and manage pension fund assets, as stipulated by law

Other roles towards increasing Financial Inclusion

- Provide a variety of pension products that cater to the demands of the people
- Increase penetration of pension services in peri-urban and rural areas
- Provide pensions services to the informal sector (where permitted by law)
- Promote pension literacy and awareness
- Report adequate and timely information to PenCom to support Financial Inclusion tracking and monitoring
- Collaborate with other institutions as permitted by law to increase the efficiency of collecting pension contributions and disbursing pension payments

- Provide services to clients and potential clients in indigenous languages

Potential collaborations

- Partner with mobile payment providers to access mobile channels for collecting pension contributions and disbursing pension payments
- Partner with NIPOST to leverage the national branch network and logistics know-how for the collection of pension contributions and the disbursement of pension payments
- Partner with retail agents to facilitate the collection of pension contributions from the informal sector and voluntary contributions from the public

Data to be reported

- Number of retirement savings accounts that are active
- Number of funds and schemes that the PFA offers
- Total pension contributions for the period under review
- Total pension disbursements for the period under review
- Total pension assets as at the end of the review period
- Number of seminars or town-hall meetings held during the period under review
- List of companies that are in breach of or have defaulted on their pension contributions for staff

Frequency of data collection

- Data shall be collected twice yearly, for the periods:
  - **January 1 to June 30**
  - **July 1 to December 31**
- Data shall be submitted to PenCom within one month in, i.e. on or before:
  - **July 31**
  - **January 31**
- Data for the period January 1 to June 30 must be submitted to PenCom by the following July 31 and data for the period July 1 to December 31 must be submitted to PenCom by the following January 31

3.4.4 Development finance institutions

Key role

- To ensure M/SME sector development

Proposed roles in increasing Financial Inclusion

- To track and report aggregate information on M/SME lending and sector development
- To track and report up-to-date information on the types of intervention schemes available

Requirements for monitoring Financial Inclusion

- Supply information on the numbers of SMEs and MSMEs that have obtained credit facilities
- Supply information on the number of farmers that have obtained credit facilities or additional support or technical assistance

- Supply information on the types and amounts of funds available to M/SMEs and agricultural sectors

Data to be reported

- List of all intervention funds available, including size of funds and amounts disbursed
- Numbers of beneficiaries of each intervention fund and average size of loan to each

Freq*uency of data collection*

- Data should be submitted to CBN – OFISD twice yearly:
  – **July 31** for data from January 1 to June 30
  – **January** 31 for data from July 1 to December 31

3.4.5 MFB

Key role

- To provide savings, credit and transfer services to low-income and poor individuals in society

Proposed roles in increasing Financial Inclusion

- Expand branch penetration to rural locations
- Develop micro-products tailored to the low-income segment
- Couple savings initiatives with credit programmes to drive the savings culture among low-income groups and act as a cheap source of funds for onward lending
- Educate clients on the use and benefits of low-cost channels, e.g. ATMs, POS, m-payments
- Promote and facilitate financial literacy programmes
- Report adequate and timely information to CBN to support tracking and monitoring of Financial Inclusion
- Enhance solidity and resilience of MFBs

Potential collaborations

- Partner with m-payment providers to leverage low-cost channels and provide services to mass-market and low-income segments (ideal for savings, payments and small-value credit disbursal)
- Partner with linkage institutions to increase access and provide banking services to low-income segments
- Partner with commercial banks to leverage cash-card platforms and the ATM/POS network
- Leverage government institutions such as RUFIN for capacity-building and linkage to access to funds (e.g. Mix Market)

Data to be reported

- Number of branches, by state
- Number of individual and SME accounts, by state
- Number of accounts per product, by state
- Total transaction volume per product for the period under review

- Transaction volume per channel for the period under review
- Number of transactions per channel, by transaction type (e.g. withdrawal, deposit, transfer)
- Amounts outstanding on loans

Frequency of data collection

- Data shall be collected twice yearly for the periods:
  - **January** 1 to June 30
  - **July 1** to December 31
- Data shall be submitted to CBN within one month in, i.e. on or before:
  - **July 31**
  - **January 31**
- Data for the period January 1 to June 30 must be submitted to CBN by the following July 31 and data for the period July 1 to December 31 must be submitted to CBN by the following January 31

3.4.6 Commercial banks

Key role

- To provide banking services including (but not limited to) savings, credit and transfer services to society on a profitable basis

Proposed roles in increasing Financial Inclusion

- Drive savings mobilisation programmes as a cheap source of funds, thus reducing the cost of lending
- Develop products tailored to middle- and low-income segments
- Develop micro- and agri-business
- Increase branch penetration primarily by developing mini-branch and e-branch networks
- Drive shared services initiatives, e.g. cash management services, to reduce the industry-wide cost to serve
- Drive ATM roll-out nationwide, particularly in open markets and non-urban locations
- Provide ATMs offering multiple services, e.g. bill payment, cash deposits (enhancing the current ATM offering)
- Drive POS roll-out and merchant/agent education
- Provide POS terminals to provide multiple services, e.g. cash back, in multiple indigenous languages
- Simplify and standardise account opening forms and offer in multiple indigenous languages
- Drive savings mobilisation to reduce the industry-wide cost of funds
- Report adequate and timely information to CBN to support tracking and monitoring of Financial Inclusion
- Pursue strategies to reach more unbanked persons with financial services
- Increase branch efficiency to enable them to serve more clients

Potential collaborations

- Partner with m-payment providers to leverage low-cost channels and provide services to mass-market/low-income segments (ideal for savings, payments and small value credit disbursal)
- Partner with retail agents including NIPOST to provide basic financial services to the mass market
- Collaborate with NIMC and technology firms to develop biometric identity cards that can be provisioned with cash-card functionality

Data to be reported

- Number of branches, by branch type (i.e. full service, mini) and state
- Number of individual and SME accounts held with the bank, by state
- Number of accounts per product, by state
  - Savings
  - Credit
  - Current
- Total transaction volume per product for the period under review
- Number of transactions per channel, by transaction type (e.g. withdrawal, deposit, transfer, bill payment)
- Total transaction volume per channel for the period under review
- Total number of active ATMs for the period under review
- Total number of active POS devices for the period under review

Frequency of data collection

- Data shall be collected twice yearly for the periods:
  - **January 1** to June 30
  - **July 1** to December 31
- Data shall be submitted to the CBN – Banking Supervision department within one month in, i.e. on or before the specified date, July 31 or January 31
- Data for the period January 1 to June 30 must be submitted to CBN by the following July 31 and data for the period July 1 to December 31 must be submitted to CBN by the following January 31

3.4.7 Nigerian Postal Service

Key role

- To develop, promote and provide adequate and efficiently coordinated postal services at reasonable rates

Proposed roles in increasing Financial Inclusion

- To serve as a shared service platform for financial services and to contribute to the expansion of financial services nationwide

Requirements towards Financial Inclusion Committee

- Collect and supply information on the financial services activities that it engages in to the Financial Inclusion Secretariat
- Participate as a delivery channel for financial services
- Partner with financial services institutions to expand their footprint nationwide

Data to be reported

- List of all financial services activities engaged in by NIPOST
- Additional information regarding the size of financial service activities and numbers of financial service beneficiaries/clients served by NIPOST
- Partnerships of NIPOST with respect to financial services

Freq*uency of data collection*

- Data should be submitted to the CBN – Strategy Department twice yearly:
  - **July 31** for data from January 1 to June 30
  - **January 31** for data from July 1 to December 31

3.4.8 Government initiatives

Key role

- To further develop the M/SME sector and alleviate poverty in society

Proposed roles in increasing Financial Inclusion

- To track and report aggregate information on business enhancement and linkage programmes
- To track and report up-to-date information on types of intervention schemes available to M/SME sectors

Requirements for monitoring Financial Inclusion

- Supply information on the numbers of small businesses and MFIs that have benefitted from training and linkage opportunities
- Supply information on the number of small businesses, MFIs and individuals that have obtained credit facilities and the value of these facilities
- Supply information on the MFBs or other institutions that have provided the funding or savings to beneficiaries and the amounts involved

Data to be reported

- List of all intervention funds available, including size of funds and amount disbursed
- Numbers of beneficiaries of each intervention and average size of loan to each

Frequency of data collection

- Data shall be submitted to CBN – DFD, twice yearly:
  - **July 31** for data from January 1 to June 30
  - **January 31** for data from July 1 to December 31

3.4.9 National planning commission

Key role

- To develop strategic plans for national economic development

Proposed roles in increasing Financial Inclusion

- To ensure that national economic development plans do not negatively impact Financial Inclusion
- To ensure that existing initiatives are adequately assessed, monitored and/or implemented
- To advocate for conducive and enabling national policies that improve Financial Inclusion

Requirements towards the Financial Inclusion Committee

- Supply current information on the direction of other national policies and regulation with an impact on Financial Inclusion
- Communicate Financial Inclusion milestones to the Federal Executive Council and the Presidency

Data to be reported

- Information on current and new initiatives that could impact on Financial Inclusion
- Strategic direction of the economy
- Impact assessment results of interventions such as NEEDS 2

Frequency of data collection

- Information shall be provided at each Financial Inclusion Committee meeting, i.e. at the end of the quarter following the half year under review (last week of September and last week of March)

3.4.10 Development partners

Key role

- To provide international support for national development, including development of the financial sector

Proposed roles in increasing Financial Inclusion

- To provide adequate data on international support in the area of financial services development in Nigeria
- To ensure that external funding for financial sector development is channelled towards areas of need

Potential collaborations

- Partnership with indigenous NGOs for further development of the sector
- Partnership with providers – banks, insurance companies, pension fund administrators and mobile payment providers – to increase the development of infrastructure

Data to be reported

- List of all funds committed to developing the financial services sector within the review period, including size of funds, amounts disbursed and means of disbursement
- List of all capacity-building initiatives embarked on, including number of participants and the impact of each initiative

Frequency of data collection

- Data shall be submitted to CBN – DFD twice yearly:
  - **July 31** for data from January 1 to June 30
  - **January 31** for data from July 1 to December 31

4. Tracking Methodology

The tracking methodology provides guidelines to enable the CBN to establish a mechanism that will facilitate monitoring of the pace and progress of Financial Inclusion in Nigeria. A tracking mechanism should be designed to highlight deviations from the Financial Inclusion targets so that action can be taken to ensure that these targets are achieved. Tracking Financial Inclusion is highly dependent on input from various stakeholders. The Financial Inclusion Secretariat is not expected to embark on primary data gathering and will rely on various regulators to provide the data that is essential to monitor the pace of work and the progress towards Financial Inclusion.

4.1 Components of the Tracking Mechanism

Management Summary

The Management Summary provides an overview of the progress of Financial Inclusion in Nigeria. It includes highlights and information on the status of actions approved by the Financial Inclusion Committee, with the aim of increasing accountability. It also outlines the priorities to be addressed in the next review period and provides an overview of the required steps to address these priorities.

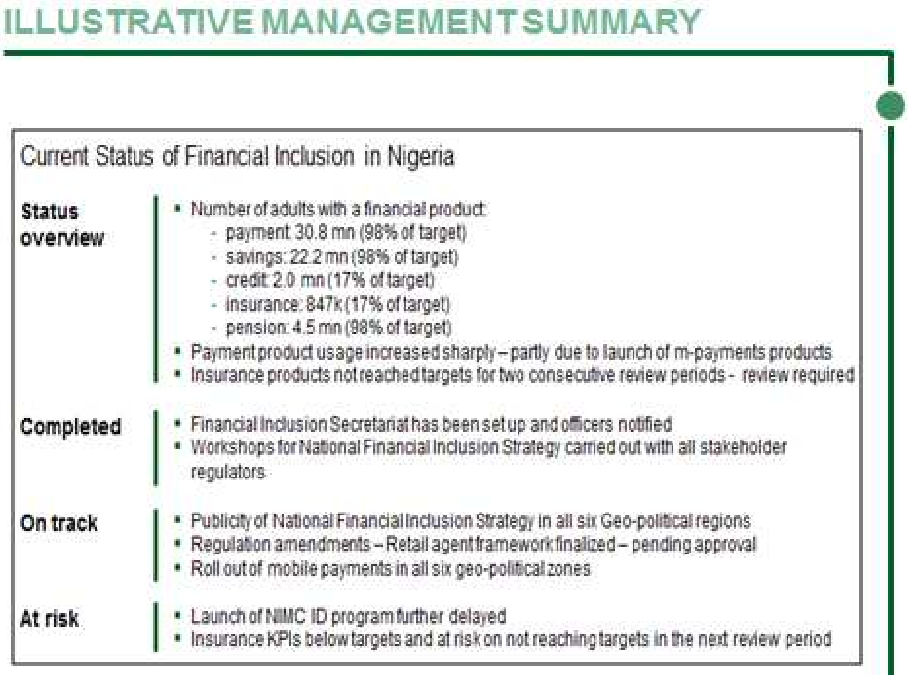


Figure 37: Management Summary

The Management Summary comprises the following sections:

- Status overview: This shows the number of financially included persons by product, the degree to which the target has been achieved, the status of underperforming indicators and initiatives since the previous review period and any challenges encountered since the last review period

- Completed: This shows successfully completed actions and initiatives since the previous Financial Inclusion Committee meeting, based on approved next steps
- On track: This shows ongoing initiatives that are on track for timely and successful completion
- At risk: This shows KPIs or other indicators that are at risk of not achieving their targets, as well as any other setbacks

Status Update

The Status Update shows the status of the key indicators, including use, infrastructure, affordability, financial literacy and consumer protection. A traffic light system can be used to highlight areas that are on- or off-track: red signifies that the target has not been achieved, amber that the target is close to being achieved (i.e. within 10%) and green that the target for the period has been fully achieved. Additional comments and decision requirements are also given in the status update.

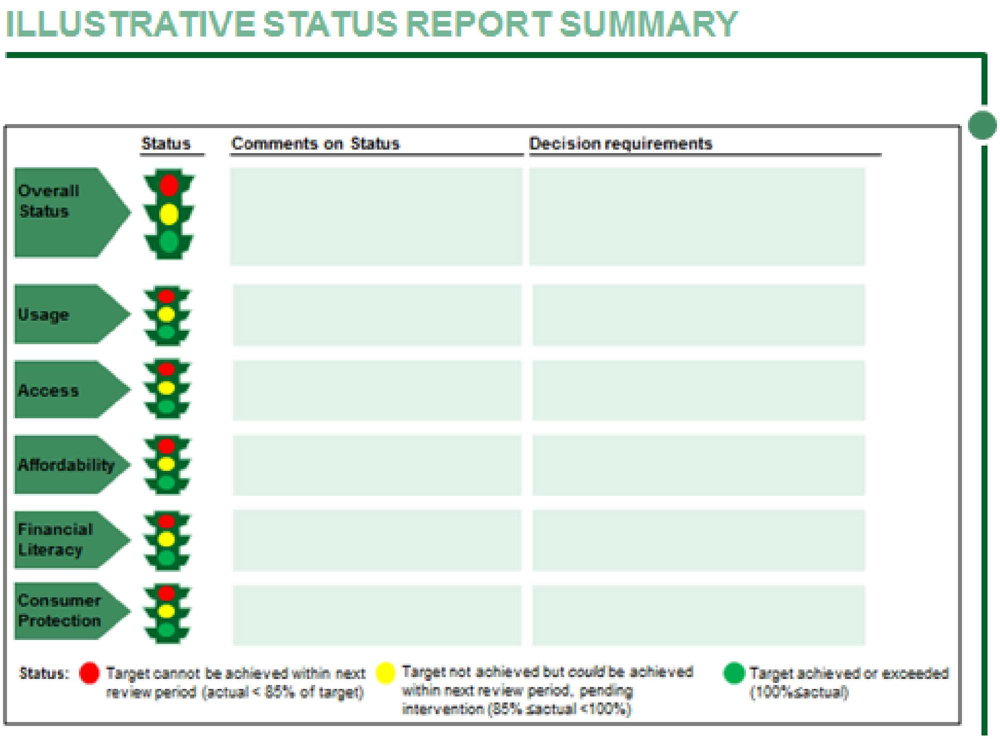
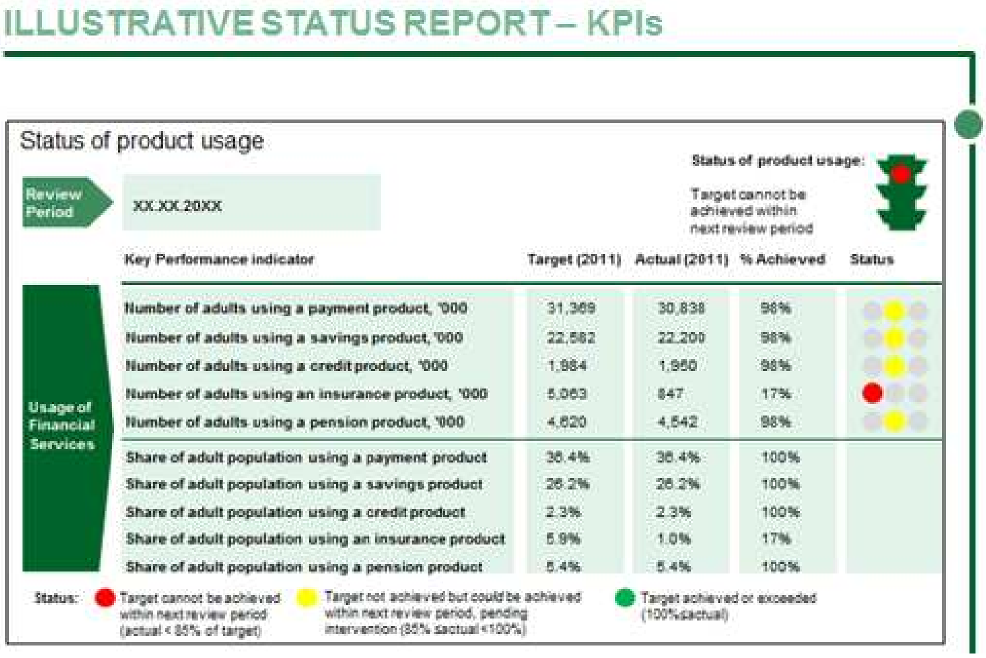
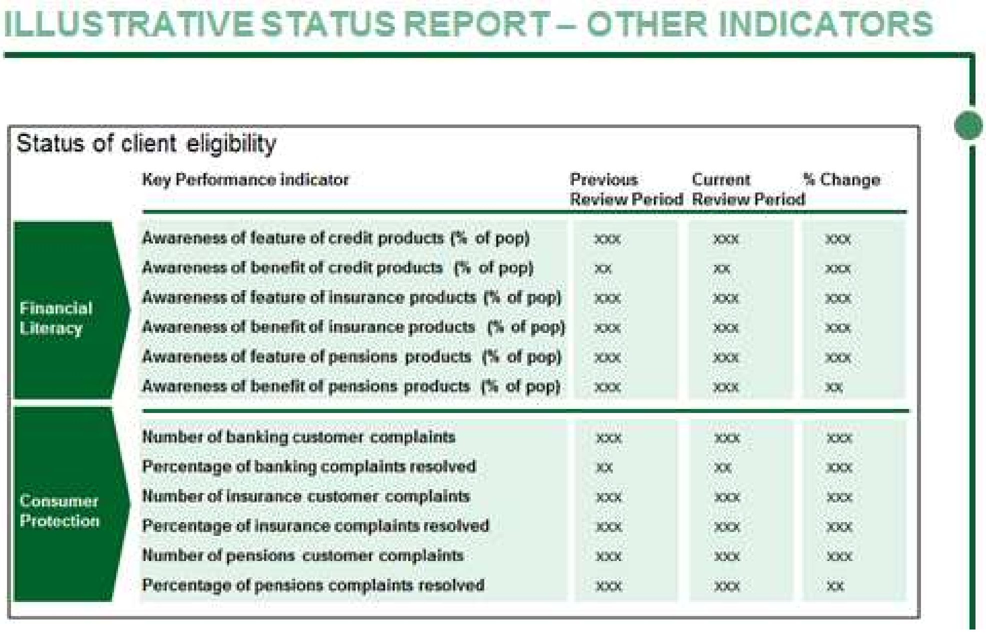


Figure 38: Status Update Report 1



	Key Performance indicator	Target (2011)	Actual (2011)	% Achieved	Status
Usage of Financial Services	Number of adults using a payment product, '000	31,369	30,838	98%	
	Number of adults using a savings product, '000	22,582	22,200	98%	
	Number of adults using a credit product, '000	1,984	1,950	98%	
	Number of adults using an insurance product, '000	5,063	847	17%	
	Number of adults using a pension product, '000	4,620	4,542	98%	
	Share of adult population using a payment product	36.4%	36.4%	100%	
	Share of adult population using a savings product	26.2%	26.2%	100%	
	Share of adult population using a credit product	2.3%	2.3%	100%	
	Share of adult population using an insurance product	5.9%	1.0%	17%	
	Share of adult population using a pension product	5.4%	5.4%	100%	

Figure 39: Status Update Report 2



	Key Performance indicator	Previous Review Period	Current Review Period	% Change
Financial Literacy	Awareness of feature of credit products (% of pop)	xxx	xxx	xxx
	Awareness of benefit of credit products (% of pop)	xx	xx	xxx
	Awareness of feature of insurance products (% of pop)	xxx	xxx	xxx
	Awareness of benefit of insurance products (% of pop)	xxx	xxx	xxx
	Awareness of feature of pensions products (% of pop)	xxx	xxx	xxx
	Awareness of benefit of pensions products (% of pop)	xxx	xxx	xx
Consumer Protection	Number of banking customer complaints	xxx	xxx	xxx
	Percentage of banking complaints resolved	xx	xx	xxx
	Number of insurance customer complaints	xxx	xxx	xxx
	Percentage of insurance complaints resolved	xxx	xxx	xxx
	Number of pensions customer complaints	xxx	xxx	xxx
	Percentage of pensions complaints resolved	xxx	xxx	xx

Figure 40: Status Update Report 3

Trend Analysis

The Trend Analysis shows the progress of KPIs and other indicators over all historical and current review periods. This enables the reader to identify any under-performing or overperforming indicators. The Trend Analysis will be compiled and tracked following each review period and guides the decision making process by the Financial Inclusion Committee.

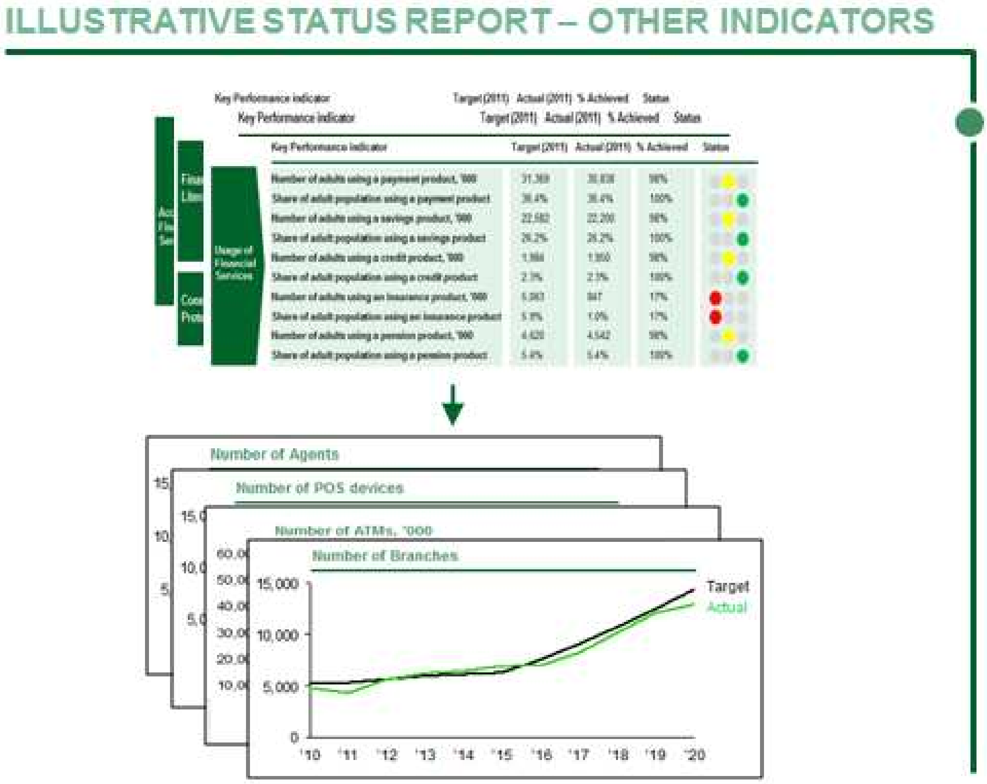


Figure 41: Trend Analysis Report

Priority checklist

The Priority Checklist outlines all Financial Inclusion stakeholder programmes and initiatives for the subsequent two years on a timeline. The status and progress of each programme and initiative is highlighted using a traffic light system. Issues about the progress of actions and the launch of impending programmes are described in the "Remarks" column.

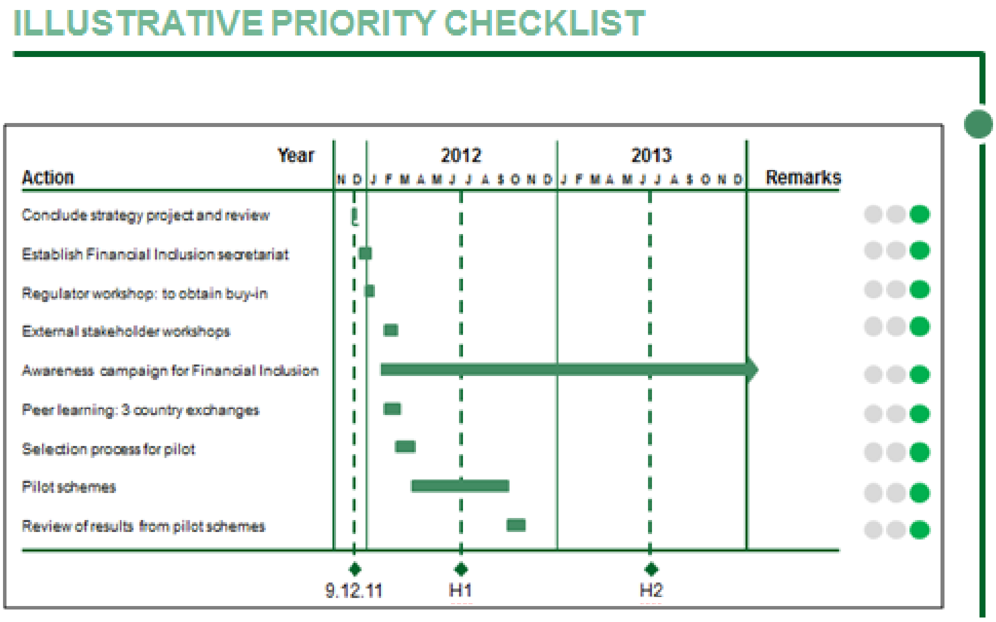


Figure 42: Priority Checklist Report

Next steps

The Next Steps sections of the tracking mechanism lists all programmes and initiatives that are to be implemented in the next review period, and required actions for their successful launch. It also provides a list of recommendations for improving under-achieving KPIs and other indicators, plus an outline of stakeholder responsibilities for each action.

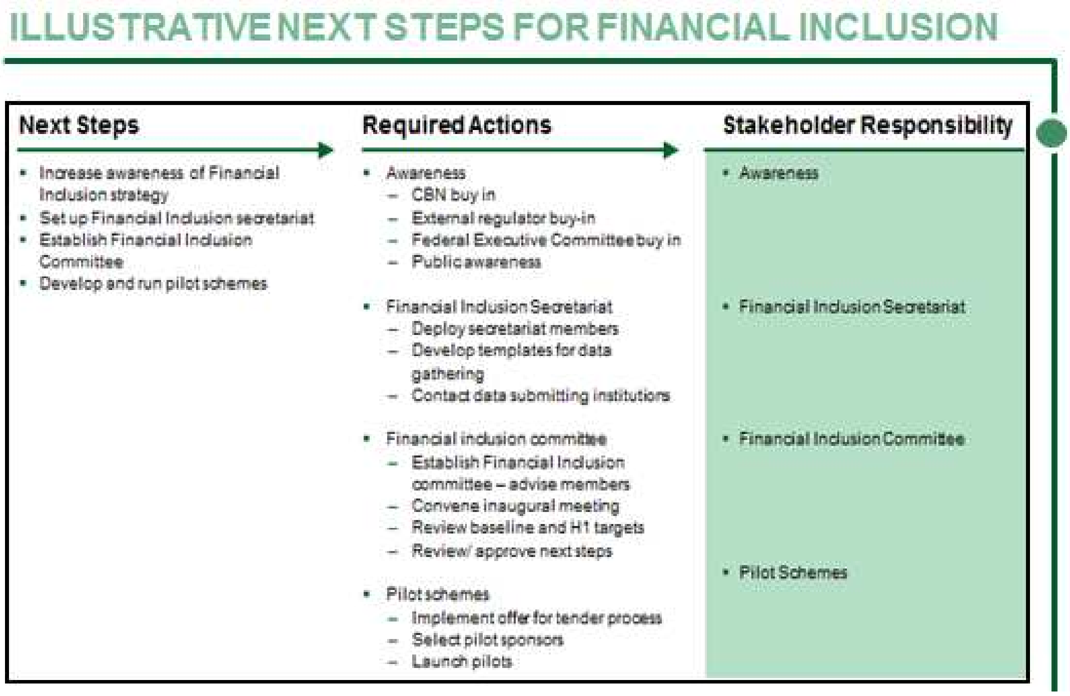


Figure 43: Next Steps Report

4.2 Key Performance Indicators

Key performance indicators (KPIs) have been compiled to ensure that the broad spectrum of Financial Inclusion is closely monitored and a holistic representation can be made on the status of all key aspects. The KPIs are grouped into financial services infrastructure, use of financial services and other indicators.

Financial Services Infrastructure
Total number of branches (commercial, MFB and NIFI inclusive) – total and segmented by state
Number of commercial branches (total and segmented by state)
Number of MFB branches (total and segmented by state)
Number of NIFI branches (total and segmented by state)
Number of NIPOST branches offering financial services (total and segmented by state)
Number of branches per 100,00 adults (commercial, MFB and NIFI inclusive) – total and segmented by state
Number of commercial branches per 100,00 adults (total and segmented by state)
Number of MFB branches per 100,00 adults (total and segmented by state)
Number of NIFI branches per 100,00 adults (total and segmented by state)
Number of NIPOST branches offering financial services per 100,00 adults (total and segmented by state)
Number of commercial bank branches per 1,000 sq meters (total and segmented by state)
Number of branches per 1,000 sq km (commercial, MFB and NIFI inclusive) – total and segmented by state
Number of commercial branches per 1,000 adults (total and segmented by state)
Number of MFB branches per 1,000 adults (total and segmented by state)
Number of NIFI branches per 1,000 adults (total and segmented by state)
Number of NIFI branches per 1,000 adults (total and segmented by state)
Number of ATMs per 100,000 adults (total and segmented by registered state location)
Number of active POSs per 100,000 adults (total and segmented by registered state location)
Number of ATMs per 1,000 sq km (total and segmented by registered state location)
Number of active POSs per 1,000 sq km (total and segmented by registered state location)
Number of active retail agents per 100,000 adults (total and segmented by registered state location)
Number of active m-payment agents per 100 000 adults (total and segmented by registered state location)
Number of active retail agents per 1,000 sq km (total and segmented by registered state location)
Number of active m-payment agents per 1,000 sq km (total and segmented by registered state location)

Usage of Financial Services
Number of adults with a current/payment account (commercial, MFB, NIFI and m-payment inclusive) - total and segmented by state location
Number of adults with a savings account (commercial, MFB, and NIFI inclusive) - total and segmented by state location
Number of adults with a credit account (commercial, MFB and NIFI inclusive) - total and segmented by state location
Number of adults with an insurance product (commercial, MFB and NIFI inclusive) - total and segmented by state location
Number of adults with a pensions product (commercial, MFB and NIFI inclusive) - total and segmented by state location
Number of SMEs with a current/payment account (commercial, MFB and NIFI inclusive) - total and segmented by state location
Number of SMEs with a credit account (commercial, MFB and NIFI inclusive) - total and segmented by state location
Share of adults with a current/payment account (commercial, MFB, NIFI and m-payment inclusive) - total and segmented by state location
Share of adults with a savings account (commercial, MFB, and NIFI inclusive) - total and segmented by state location
Share of adults with a credit account (commercial, MFB and NIFI inclusive) - total and segmented by state location
Share of adults with an insurance product (commercial, MFB and NIFI inclusive) - total and segmented by state location
Share of adults with a pensions product (commercial, MFB and NIFI inclusive) - total and segmented by state location
Usage (other - banking)
Total payment transaction volume for individual accounts (commercial, MFB, NIFI, and m-payment inclusive) for the period under review
Total savings account transaction volume for individual accounts (commercial, MFB, and NIFI inclusive) for the period under review
Total credit account transaction volume for individual accounts (commercial, MFB, and NIFI inclusive) for the period under review
Total payment transaction volume for SME accounts (commercial, MFB, and NIFI inclusive) for the period under review
Total credit account volume for SME accounts (commercial, MFB, and NIFI inclusive) for the period under review
Average payment transaction value for individual accounts (commercial, MFB, NIFI, NIPOST and m-payment) for the period under review
Average savings account transaction value for individual accounts (commercial, MFB, and NIFI) for the period under review
Average credit size for individual accounts (commercial, MFB, and NIFI) for the period under review
Average payment transaction value for SME accounts (commercial, MFB, and NIFI) for the period under review

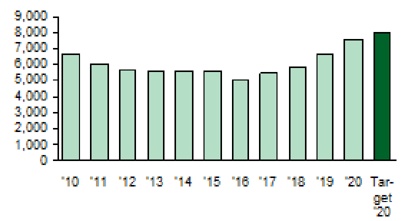
Usage of Financial Services
Usage (other - insurance)
Total insurance premium volume for the period under review
Average insurance premium for the period under review
Number of insurance products per adult (total and segmented by state location)
Percentage of premiums claimed vs. premiums made for the period under review
Usage (other - pensions)
Total pensions contribution volume for the period under review
Average pensions contribution for the period under review
Average pensions disbursel for the period under review
Affordability
Average savings interest rate
Average credit interest rate
Average m-payment transaction cost
Average POS transaction cost
Average ATM transaction cost
KYC
Number of Nigerians with national identity cards as of the end of each review period (total and segmented by state location)
Development Initiatives - development funds/grants
Number of seminars/capacity building initiatives held segmented by managing institution
Number of pension seminars/ town hall meetings held under review segmented by location (state, LGA) held during the period under review
Number of insurance seminars/ town hall meetings held under review segmented by location (state, LGA)

Other Indicators
Financial Literacy
National level of financial literacy: nationwide and segmented by location (state)
Level of awareness of features of credit products (% of population)
Level of awareness of benefits of credit products (% of population)
Level of awareness of features of insurance products (% of population)
Level of awareness of benefits of insurance products (% of population)
Level of awareness of features of pensions products (% of population)
Level of awareness of benefits of pensions products (% of population)
Consumer Protection
Number and type of complaints received with regards to m-payments and the providers
Percentage of premiums claimed vs. premiums made for the period under review
number of banking complaints
% of banking complaints resolved
number of insurance complaints
% of insurance complaints resolved
number of pensions complaints
% of pensions complaints resolved
Other Industry indicators
Percentage of companies non-compliant with mandated insurance products (for the period under review)
Industry percentage network downtime (average) - Telecommunications
Total number of active mobile subscribers
Percentage of companies non-compliant with mandated insurance products (for the period under review)

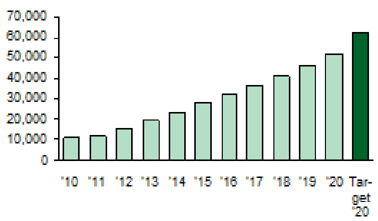
KPIs	Units	BASELINE Dec 2010	TARGET Dec 2011	TARGET Dec 2012	TARGET Dec 2013	TARGET Dec 2014	TARGET Dec 2015	TARGET Dec 2016	TARGET Dec 2017	TARGET Dec 2018	TARGET Dec 2019	TARGET Dec 2020
Macroeconomic data												
GDP of Nigeria	'000'000	11.100.089	11.905.268	12.710.448	13.515.627	14.320.807	15.125.986	16.148.373	17.170.760	18.193.147	19.215.535	20.237.922
Population of Nigeria	'000	158.259	161.893	165.528	169.163	172.797	176.432	180.466	184.500	188.534	192.568	196.602
Adult population of Nigeria (18+)	'000	84.720	86.178	87.636	89.094	90.552	92.010	94.567	97.125	99.682	102.240	104.797
Financial inclusion statistics												
Banked	%	30%	30%	35%	40%	45%	50%	54%	58%	62%	66%	70%
Unbanked	%	70%	70%	65%	60%	55%	50%	46%	42%	38%	34%	30%
Other												
Area of Nigeria	'000 sq. km.	924	924	924	924	924	924	924	924	924	924	924
USAGE												
Number of banked adults	[Units]	25.416	25.853	31.478	37.275	43.245	49.387	53.847	58.474	63.269	68.230	73.358
Percentage of banked adults	%	*30%*	*30%*	*36%*	*42%*	*48%*	*54%*	*57%*	*60%*	*63%*	*67%*	*70%*
Number of banked adults	[Units]	25.416	25.853	29.606	33.470	37.443	41.527	44.548	47.669	50.891	54.214	57.639
Percentage of banked adults	%	*30%*	*30%*	*34%*	*38%*	*41%*	*45%*	*47%*	*49%*	*51%*	*53%*	*55%*
Number of adults banked by other formal means	'000	5.337	5.429	6.648	7.904	9.197	10.528	11.494	12.496	13.534	14.609	15.720
Percentage of adults banked by other formal means	%	6%	*6%*	*8%*	*9%*	*10%*	11%	12%	13%	14%	14%	15%
Number of adults banked by informal means	'000	14.741	14.995	14.439	13.857	13.247	12.611	12.260	11.872	11.446	10.982	10.480
Percentage of adults banked by informal means	%	17%	*17%*	*16%*	*16%*	*15%*	14%	13%	12%	11%	11%	10%
Number of adults completely excluded	'000	39.225	39.900	36.942	33.864	30.664	27.343	26.265	25.088	23.811	22.435	20.959
Percentage of adults completely excluded	%	46%	46%	*42%*	*38%*	*34%*	30%	28%	26%	24%	22%	20%
Number of adults using a payments product	'000	30.838	31.369	35.580	39.914	44.370	48.949	53.487	58.197	63.079	68.133	73.358
Share of adults using a payments product	%	*36,40%*	*36,40%*	*40,60%*	*44,80%*	*49,00%*	*53,20%*	56,56%	59,92%	63,28%	66,64%	*70,00%*
Number of savers	'000	22.200	22.582	26.666	30.874	35.204	39.658	43.956	48.427	53.072	57.889	62.878
Share of savers among adult population	%	*26,20%*	*26,20%*	*30,43%*	*34,65%*	*38,88%*	*43,10%*	46,48%	49,86%	53,24%	56,62%	*60,00%*
Number of borrowers	'000	1.950	1.984	6.147	10.447	14.885	19.461	23.567	27.866	32.357	37.042	41.919
Share of borrowers in adult population	%	*2,30%*	*2,30%*	*7,01%*	*11,73%*	*16,44%*	*21,16%*	24,92%	28,69%	32,46%	36,23%	*40,00%*
Number of adults with insurance	'000	847	5.063	9.421	13.921	18.563	18.862	23.074	27.486	32.098	36.909	41.919
Share of insured adults of adult pop	%	*1,00%*	*5,88%*	*10,75%*	*15,63%*	*20,50%*	*20,50%*	24,40%	28,30%	32,20%	36,10%	*40,00%*
Number of adults with pension	'000	4.542	4.620	9.588	14.719	20.013	25.469	30.398	35.556	40.942	46.556	52.399
Share of pensioned adults of adult pop	%	*5,36%*	*5,36%*	*10,94%*	*16,52%*	*22,10%*	*27,68%*	32,14%	36,61%	41,07%	45,54%	*50,00%*
ACCESS												
Number of commercial bank branches	[Units]	5.797	5.797	6.072	6.348	6.623	6.899	7.119	7.339	7.559	7.780	8.000
Branches per 100,000 people	[Units]	*6,84*	*6,73*	*6,93*	*7,12*	*7,31*	*7,50*	*7,53*	*7,56*	*7,58*	*7,61*	*7,6*
Branches per 1,000 sq. km	[Units]	*6,28*	*6,28*	*6,57*	*6,87*	*7,17*	*7,47*	*7,71*	*7,94*	*8,18*	*8,42*	*8,66*
Number of MFB branches	[Units]	2.486	2.486	2.825	3.164	3.503	3.842	4.113	4.384	4.656	4.927	5.198
MFB branches per 100,000 people	[Units]	*2,93*	*2,88*	*3,22*	*3,55*	*3,87*	*4,63*	*4,35*	*4,51*	*4,67*	*4,82*	*4,96*
MFB branches per 1,000 sq. km	[Units]	*2,69*	*2,69*	*3,06*	*3,43*	*3,79*	*4,16*	*4,45*	*4,75*	*5,04*	*5,33*	*5,63*
Number of ATMs	[Units]	9.958	9.958	16.518	23.078	29.639	36.199	41.447	46.695	51.943	57.192	62.440
ATMs per 100,000 people	[Units]	*11,75*	*11,56*	*18,85*	*25,90*	*32,73*	*42,73*	*43,83*	*48,08*	*52,11*	*55,94*	*59,6*
ATMs per 1,000 sq. km	[Units]	*10,78*	*10,78*	*17,88*	*24,98*	*32,08*	*39,19*	*44,87*	*50,55*	*56,23*	*61,91*	*67,59*
Number of POS devices	[Units]	11.223	11.223	59.820	108.417	157.014	205.612	244.489	283.367	322.245	361.122	400.000
POSs per 100,000 people	[Units]	*13,25*	*13,02*	*68,26*	*121,69*	*173,40*	*242,70*	*258,54*	*291,76*	*323,27*	*353,21*	*381,7*
POSs per 1,000 sq. km	[Units]	*12,15*	*12,15*	*64,76*	*117,38*	*169,97*	*222,58*	*264,67*	*306,76*	*348,84*	*390,92*	*433,01*
Number of agents	[Units]	0	0	8.125	16.250	24.375	32.500	39.000	45.500	52.000	58.500	65.000
Agents per 100,000 people	[Units]	*0,00*	*0,00*	*9,27*	*18,24*	*26,92*	*31,01*	*41,24*	*46,85*	*52,17*	*57,22*	*62,0*
Agents per 1,000 sq. km	[Units]	*0,00*	*0,00*	*8,80*	*17,59*	*26,39*	*35,18*	*42,22*	*49,26*	*56,29*	*63,33*	*70,36*
Ownership of KYC compliant ID												
Ownership of National ID Card	%	*17,7%*	*18%*	*26%*	*38%*	*49%*	59%	67%	75%	84%	92%	100%

Channels

Number of branches

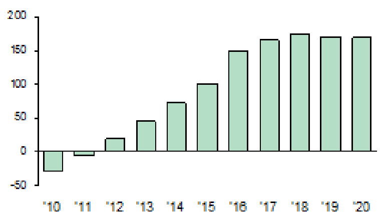


Number of ATMs

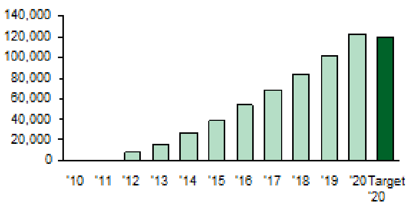


Channel Profitability

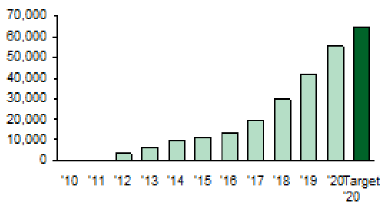
Annual net profit per branch, NGN million



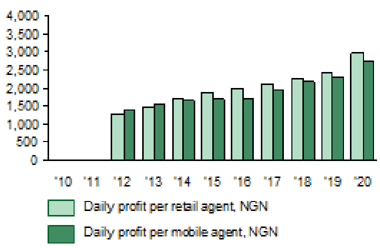
Number of retail agents



Number of mobile agents



Daily net Profit mobile and retail agents, NGN



5. Implementation Plan

The Financial Inclusion strategy presents a roadmap for increasing Financial Inclusion in Nigeria from 36% to 70% by 2020. In order to achieve this level of Financial Inclusion, specific actions are required and a dedicated Financial Inclusion Secretariat Team should be responsible for implementing and monitoring all action items.

5.1 Timeline for implementation

Specific actions to address issues identified during the strategy design phase have been arranged on a timeline and responsibilities for these actions identified:

- Administrative actions are those to be implemented by the CBN – these actions do not directly impact on the use of financial services but they ensure that new and ongoing initiatives achieve their full potential
- In-process actions are those that have been identified as very important; efforts towards these have already commenced
- New initiatives are those that do not yet exist and which are required to increase the level of Financial Inclusion – such initiatives are scheduled after the peer learning and pilot schemes to leverage learning and provide time for their successful design and implementation

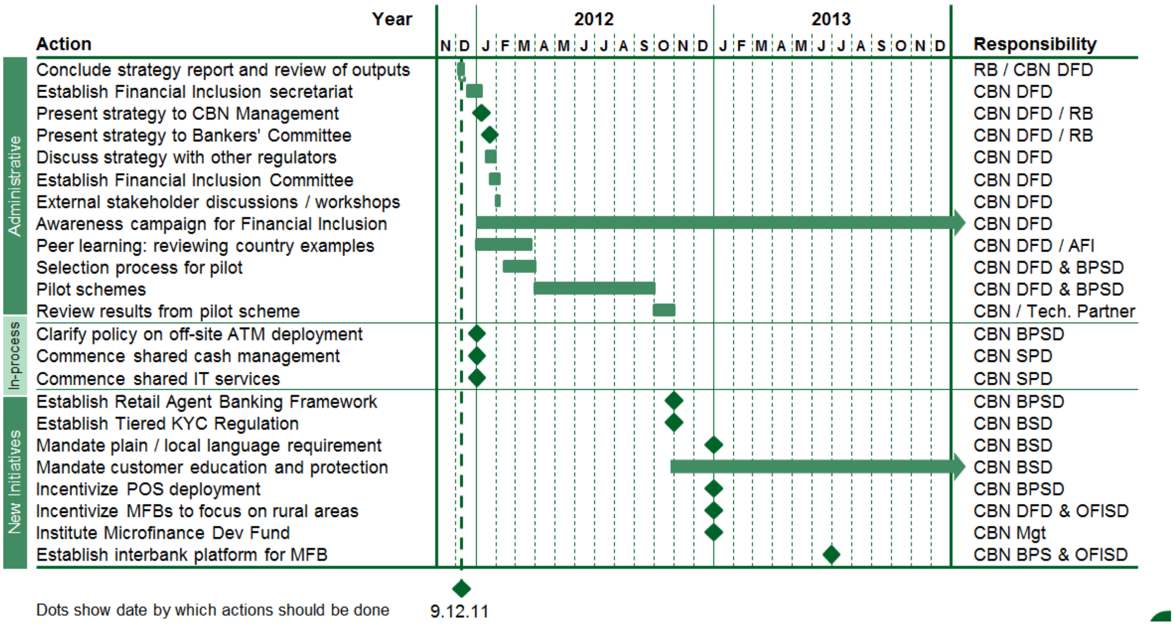


Figure 44: Implementation timeline

There are also actions required by other regulators to ensure that the targets for increasing Financial Inclusion are achieved, as shown below:

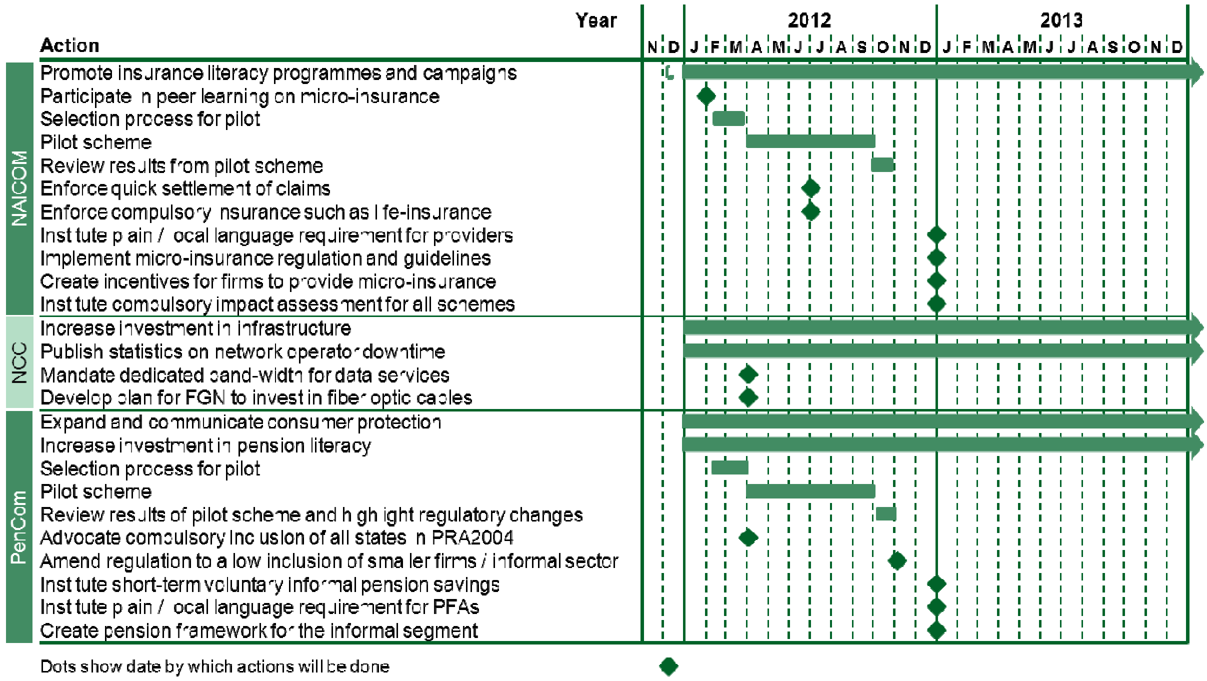


Figure 45: Implementation timeline for other regulators

We also advise implementing supporting elements by 2015 to increase the pace of Financial Inclusion. These actions have not been placed on a timeline as they are suggestions which require the buy-in of multiple stakeholders.

Collaboration

- Partnership between insurance firms and banks for the distribution and sales of policies
- Partnership between insurance firms/PFAs and mobile payments for increased collection and disbursements to overcome geographical distance
- Banks/insurance/pensions partnership with NIPOST to serve as shared service hub and financial services centre

Leveraging other channels

- Full e-banking service offering, i.e. leveraging e-channels for all banking services
- Utilising NIPOST outlets for a full range of financial service activities
- Utilising NIPOST outlets as customer complaint centres for financial services
- Tracking Nigeria's goal of becoming one of the world's 20 largest economies – FSS 2020 dashboard

Other initiatives

- Conversion of airtime to e-value that can be used for other payments
- Permitting MNOs to advertise on mobile payments channels

- Government payment of NYSC allowances electronically (e-value) to increase the use of mobile payment systems
- Mandatory use of cashless payments within government buildings, e.g. CBN canteens to use electronic payment systems only, such as POS

5.2 Workshops and awareness campaigns

5.2.1 Workshops

Workshops will increase knowledge about Financial Inclusion and ensure that the relevant stakeholders are aware of the targets for various components, as well as the roles and responsibilities. These are targeted at four broad groups:

i. **CBN:** Within the CBN, workshops will be anchored with presentations

   - CBN management:
     – Presentation to all Directors
     – Presentation to the Committee of Governors
   - CBN staff
     – Departments to arrange internal presentations
     – State/zonal offices to conduct internal sensitisation workshop for staff

ii. **Bankers' Committee:** The purpose here is to sensitise the top management of banks to the strategy and obtain initial indications for a pilot scheme. A presentation will be made in January 2012 on the strategy (as agreed at the December 2011 retreat in Calabar), with a particular focus on targets and pilot schemes

iii. **Other regulators** and institutions must be engaged at the highest level. The Director of DFD and where necessary the Deputy Governor FSS will lead discussions with the Director Generals and or management of the following institutions in January 2012:

   - NAICOM
   - PenCom
   - NCC
   - NIMC
   - NBS

   These workshops with other regulators should be facilitated by CBN DFD for the following purposes:

   - To discuss the National Financial Inclusion Strategy – findings and the way forward
   - To discuss the proposed targets and data requirements
   - To discuss pilot schemes
   - To discuss roles and responsibilities

iv. **External stakeholders:** A workshop or series of workshops will be organised in collaboration with other regulators to discuss the Financial Inclusion strategy. This will provide the opportunity to discuss roles, responsibilities and data requirements where necessary, and to inform stakeholders about the proposed pilot schemes

5.2.2 Awareness Campaign

- Federal Government: A presentation on the salient points of Financial Inclusion must be made to the Federal Executive Council and National Assembly by the Governor and Deputy Governor
- A Communications Plan must be developed: this should include an outline of the media that will be used and specific scripts for communicating the message on Financial Inclusion in various languages
- Workshops should be held in all six geo-political zones to create awareness about Financial Inclusion and the benefits of using financial services
- Media campaigns should be broadcast throughout the year in all geo-political zones in the country

5.3 Peer learning

5.3.1 Purpose

Peer learning is advantageous for both regulators and industry. It enables participants to learn from the successes and failures of countries that have already embarked on similar initiatives:

i. *Regulatory* – The peer learning exercise will enable CBN and NAICOM to identify areas of focus and potential challenges and pitfalls to avoid during implementation in Nigeria. Studying examples will also show how regulation can create an enabling environment

ii. *Industry* – The financial services industry will benefit from the peer learning indirectly as regulators will apply lessons from best-in-class countries to ensure that regulation is of a good standard. Providers can also learn about new product features and leverage the experiences of others in developing products for this environment

5.3.2 Methodology

Materials on experiences in different countries can be sourced from the AFI. Learning should be facilitated within the institution (e.g. CBN) to ensure that more staff members benefit from the information and cost savings are applied. The focus on exchanges between countries can be reduced.

The information to be derived from the peer learning experience includes (but is not limited to) the background of the scheme, methodologies, regulatory allowances, supervisory methods, challenges and opportunities. Peer learning sessions can be scheduled as twice-weekly seminars within the relevant CBN or NAICOM department over a period of one month. An expert, i.e. a technical partner or consultant, can facilitate the sessions within the departments. It should be noted that country exchanges, whilst possible, must be supported with learning sessions within the institutions in question. As such, country exchanges should only be scheduled they back up internal or local seminars.

5.3.3 Topics

The peer learning experience should cover the three main topics that we have identified as critical to increasing the pace of Financial Inclusion: agent banking, tiered KYC and micro-insurance:

Agent Banking

Country selection

- Brazil has developed the most successful retail agent banking framework, leading to 12.4 million new accounts in 5 years
- Kenya has developed the most successful mobile payments agent network in Africa and lessons can be learnt for its adaptation to our preferred regulatory model – bank-led payments

Date for peer learning

- Start of Q1 2012

Tiered KYC

Country selection

- Mexico has a tiered approach to KYC that allows flexible account opening requirements for low-value, low-risk accounts, subject to increasing caps and restrictions on permitted transactions
- India relaxed the KYC requirements for small-value transactions and this led to an increase in the number of users of financial services

Date for peer learning

- Start of Q1 2012

Micro-insurance

Country selection

- South Africa has developed regulations that allow the conversion of airtime to e-value

- Mexico has created regulations simplifying insurance products and this has significantly increased the use of insurance by Mexicans

Date for peer learning

- Mid-Q1 2012

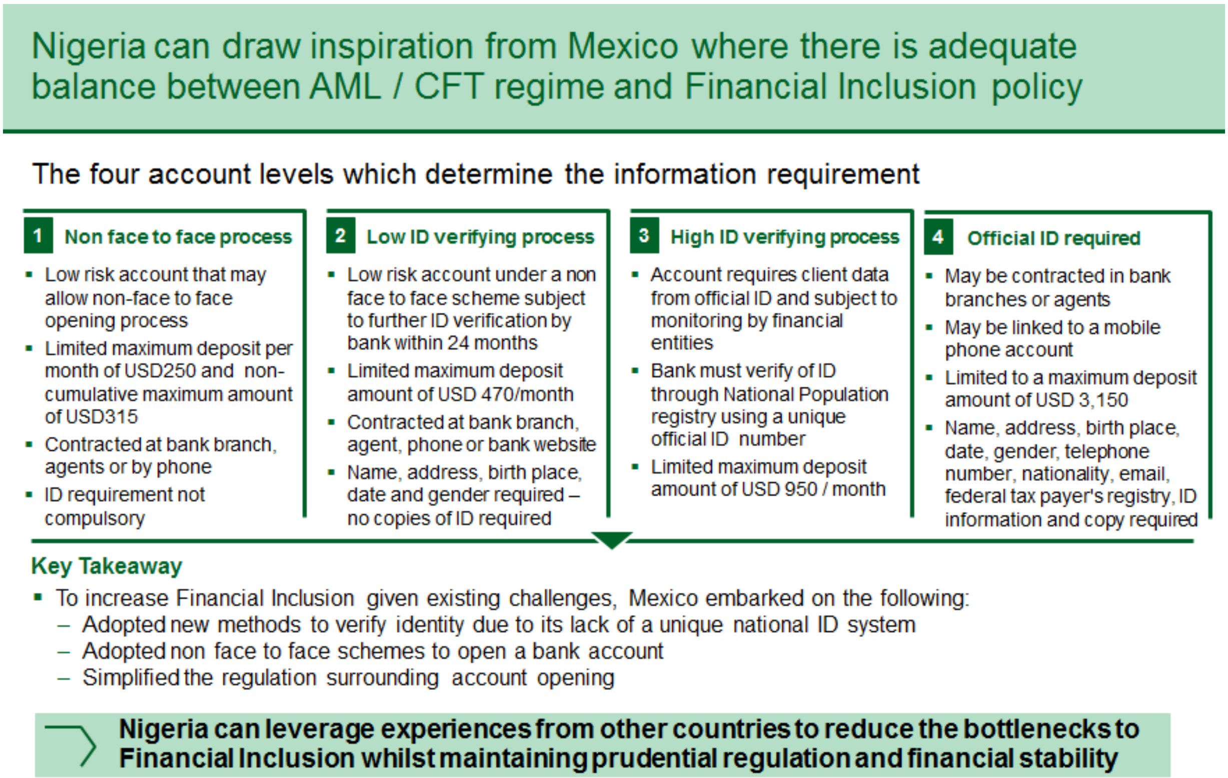


Figure 46: Case study on Mexico

5.4 Pilot schemes

> *Following the interest expressed by stakeholders during the strategy design phase, we believe that institutions will be happy to participate in pilot schemes as this gives them a head-start to gaining the potential profits from serving more clients*

Other reasons for participation in pilots:

- Market opportunity – First mover advantage in learning about serving the segment and making profits
- Product association – Pilot partners will be associated with the products ahead of the rest of the industry. This could increase customer loyalty
- Potential increase in client base – This expands the source of cheap deposits and serves as an outlet for further product sales

Products for pilot	Requirement for participating institutions	Information to gather
1. Bank product *Entry level bank account for transactional services*	▪ Registered commercial bank ▪ Willingness to engage, train and manage retail banking agents ▪ Extensive POS network ▪ Instant debit card issuing facilities ▪ Robust IT infrastructure to track daily transaction limits and provide instant text messaging confirmations for transactions	▪ Market demand for product ▪ Cost of advertising new product ▪ Revenues generated within period of pilot ▪ Total number of accounts opened ▪ Number of accounts opened by agents vis-à-vis those opened at branches ▪ Interest of people to become agents ▪ Agent profitability ▪ Agent management and cash management challenges ▪ Ease of meeting KYC requirements (where applicable) ▪ Frequency of transaction limit breaches
2. Insurance product *Short-term life insurance product*	▪ Insurance firms with appetite to sell simple products quickly ▪ Participating banks to serve as distribution channels for sale ▪ Willingness to train bank staff and agent network on product benefits and pricing ▪ Willingness to incentivize outlets e.g. one-off commission ▪ Robust IT infrastructure to track and provide text update	
3. Pension product *RSA for informal segment – those with irregular income that provides payout after 7 years*	▪ Registered Pension Fund Administrator ▪ Willingness to engage, train and manage agents – noting that some agents will communicate in local dialects only ▪ Robust IT infrastructure to track regularity of contribution, value of pension contribution and provide update via text to client monthly	

Figure 47: Proposed pilot schemes

5.4.1 Bank product

Product description

- The product will be a bank account for transactional services, with an option to use a mobile wallet
- This bank account will be able to connect to a mobile payment platform or account
- The product sign-up will include an instant debit card and linkage to a SIM card, with PIN authentication
- The product sign-up will be done at debit card cost – no additional charge for sign-up
- The KYC requirement will depend on the value of the transaction and will have basic level 1 and level 2 accounts depending on transaction size and limits
- The customer will receive a confirmation text from the bank to validate accounts opened by the agent
- Payments and transfers can be initiated at mobile payment or retail agent outlets

Product dependencies

- Level 1 KYC – The KYC requirement should only be a name and a phone number. This will allow for a single transaction limit of NGN 3,000 as well as a daily account limit of NGN 30,000, i.e. as defined in the mobile payments framework
- Level 2 KYC – The KYC requirement should include a verification of name and address by the village council or administrator. This will allow for a single transaction limit of NGN 10,000 as well as a daily account limit of NGN 100,000, i.e. consistent with a "semi-banked" account in the mobile payments framework
- Agent banking – The product will rely on a vast retail agent banking network to serve the mass market

Service

- Services offered include a cash-in/out service, money transfers, bill payments and airtime purchases
- The main distribution and service channels are retail, m-payments and ATMs

Provider

- The product will be designed and branded by a bank
- The debit card will be issued by the bank via the agent or branch
- The bank will be responsible for recruiting retail agents, training them and managing the agent network
- The bank will ensure that agents execute KYC procedures applicable to limit on account
- The bank will maintain transaction limits based on the KYC requirement

Regulatory permit

- Tiered KYC for the period of the pilot scheme
- Retail agent banking for the pilot scheme
- Agents validate KYC on behalf of banks to enable immediate account opening
- Instance debit card issued by agents

Purpose of bank pilot

- To validate the concept that reducing KYC requirements for the lower-income segment increases the uptake of financial products and services while maintaining the integrity of the financial system
- To validate the various tiers for KYC requirement – using the tiers in the regulatory framework for mobile payment services
- To leverage experience from mobile payments to guide the development of retail agent banking guidelines and gauge market appetite
- To highlight the challenges of using retail banking agents and develop counteraction

5.4.2 Insurance products

- The products will include short-term insurance products – life insurance, accidental death and disability cover for short local road or air travel (48 hours insurance span), for example
- Products should be designed as basic scratch cards or covers that can be activated at mobile payment or retail agents via POS or text messages (SMS)
- Products will be adapted for sale through banking channels and other agent networks
- The target segment for this scheme is urban and rural working-class adults, representing 85.4% of Nigerian adults (68 million adults)
- Sales via bank and agent channels are intended to extend the footprint of insurance companies without directly involving banks in product development or administration

Provider

- The product design and branding will be done by insurance companies
- Participating banks that manage the distribution channels will act on behalf of the insurance companies and receive a commission from them
- Bank staff and agents will receive training on how to educate potential customers about insurance and sell insurance policies
- Participating insurance companies will carry out quality checks on customer experience
- The insurance companies that are selected to participate in pilots will partner with the banks that are selected for the pilot scheme for agent banking

Service

- Distribution will be via bank branches, mini-branches, retail agents and mobile agents
- In addition to sales, the channels will be used for paying and renewing premiums
- A process will be defined for processing insurance claims by mobile text message (SMS)
- Claims payouts will be made through branch and agent networks

5.4.3 Pension product

- The product will be a pension product for informally employed adults, who represent 70% of working Nigerian adults (50.5 million adults)
- The retirements savings account will be like a long-term savings account with discretionary contributions of up to 15% of individual income
- Tenure will be set at 7 years, with payouts after maturity or an option of rolling over for an additional 7 years

- To cater for income uncertainties, missed contributions do not void the pension plan

Provider

- The product parameters will be set by PenCom and a specific design will be made by the respective PFAs
- Closed PFAs will not participate in this scheme as the firms that own them do not cater to non-staff
- The agents will receive training on how to educate potential clients about product features and benefits
- If the pilot is successful, the product will be formalised and included in the PenCom Reform Act

Service

- The service will be distributed via PFAs, agents and mobile payment agents
- The pension contributions will be made at mobile payment agents and banks, for direct credit to the accounts of the PFAs and subsequently to individual retirement savings accounts
- The distribution network close to end clients will ensure that regular payments are easy to make

  In addition to sales, the channels will be used for payouts from the retirement savings account at product maturity

5.4.4 Process for pilot scheme

Selection process for institutions to run pilot schemes

Tender process

- By 01 February, decisions should be made (among regulators, technical partners and consultants) on
  - Number of institutions to engage in pilot including parameters for selection
  - Scope of activities to allow within pilot period especially as they relate to regulatory changes
  - Mode of harnessing the learning from pilots and converting these to actions and policy
- Application should be open to respective institutions by 13 February 2011 for a period of two weeks
- Application should detail parameters for selection as well as requirements for each institution conducting pilot schemes

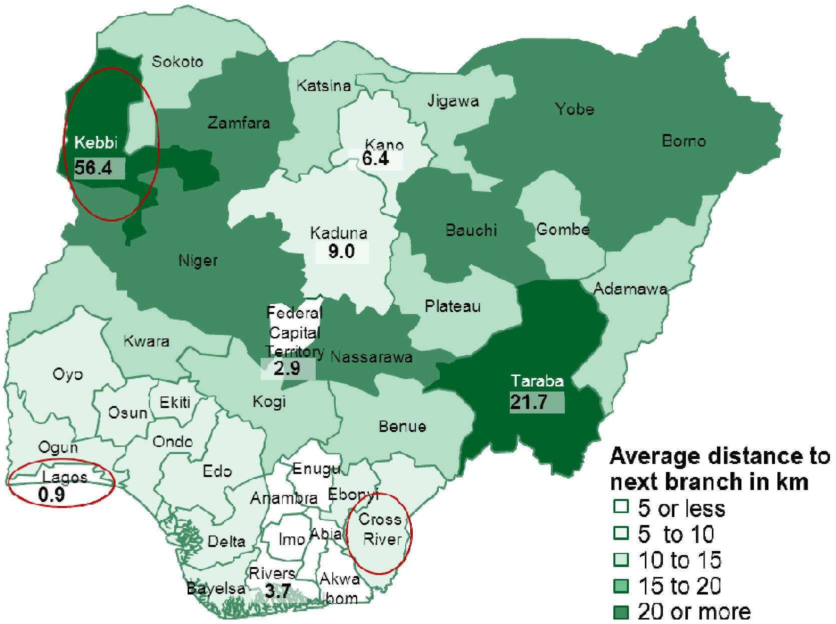
Communication

- Plans for pilot schemes should be communicated during stakeholder workshops in February 2012
- Regulators should subsequently send letters to respective institutions under their purview informing them of the pilots, the purpose, the requirements and tentative dates for the schemes by 08 Feb 2012
- Letters should be sent to institutions which were selected for the pilots detailing the terms of the pilot and regulatory permits such as KYC limits for low-value transaction accounts etc. by 12 March 2012

Pilot process

- Selected institutions must prepare systems to launch pilots and capture required data in March 2012
- Pilot schemes should be launched by participating institutions by 01 April 2011 and should run for a period of six months – thereafter, accounts opened during pilots will remain functional while a freeze period on sales will exist for one month within which the regulator fine-tunes guidelines and opens up processes to all other interested institutions
- Pilot phase ends 30 September 2012 for evaluation by regulators

Figure 48: Process for pilot schemes



- **Lagos** – This state is selected in order to observe the effects of the cashless Lagos pilot on the Financial Inclusion pilot
- **Cross river** – Amongst the south-south states, it is one of those with fewer channels of distribution for financial services
- **Kebbi** – This state is currently among the least served with respect to channels of access for financial services

Notes: Please note that distances are a rough indication only, obtained by relating total area to number of branches in the state.

Figure 49: Proposed states for pilot schemes

Proposition for retail agents

- Retailers need to participate in the offering as business partners
  - Engagement is guaranteed by paying agents' commissions for all products sold and services rendered on behalf of the pilot institution
- The compelling value proposition for retailers is twofold:
  - Stores are branded by banks; the association with banks should lend agents greater credibility
  - The increase in foot traffic that the services bring to store owners will provide them with greater cross-selling opportunities for their other products

Requirements for using retailers as banking agencies include:

i. Customer outreach
   - Retail stores must have sufficient foot traffic to justify the investment in store recruitment and activation
   - The amount of banking business that the retailer is expected to yield depends on store size, proximity to other economic activity and flexibility of business hours

ii. Store stability
   - The bank needs to be reasonably sure that the store is not likely to cease trading
   - The age of the business, commercial terms of the property lease and existing records from a banking relationship are good indicators of stability

iii. Probity
   - Retailers must demonstrate a certain level of integrity

- Background checks (criminal, credit checks, references from local authorities) on store owners are recommended

Regulation recommended by the strategy	Comments
Regulation on tiered KYC	Tiered KYC regulation will allow take-off of entry level products in the absence of a National ID Scheme, and decouples Financial Inclusion efforts from NIMC's program
Regulation setting up a retail agent banking framework	Banks will have to be allowed to offer certain services through retail agents operating on their own account, with minimum risk to clients and providing easy to reach access points
Regulation allowing bank agents to open an entry level bank accounts	Both retail agents and m-payments agents should be allowed to open entry level bank accounts to avoid limiting the rate of inclusion to the size and location of branch channels
Regulation including informally employed adults in the pensions system	To encourage informal pensions, the PenCom Act should include a product targeted at informally employed adults that takes into consideration their irregular income

SUMMARY OF CORE ACTIONS	RESPONSIBILITY
Tracking and monitoring implementation agenda	Financial Inclusion Secretariat – the team will be tasked with following through and liaising with institutions and departments responsible for delivering on specific actions
Coordinating peer learning	Financial Inclusion Secretariat and Technical partners – the secretariat will ensure the sessions are scheduled while technical partners will assist to provide material and facilitate the learning sessions. They will advise on the validity of actual country exchanges as compliment to working / learning sessions
Tracking and monitoring pilots	Regulator and technical partners – both groups will articulate the key success factors for pilots
Evaluating results from pilots	Regulator and technical partners – both groups will meet to evaluate the results and validate regulatory amendments to be institutionalized

Technical partners refer to institutions such as AFI, EFInA and GIZ

6 Conclusion

The national strategy for Financial Inclusion in Nigeria sets a clear agenda: stakeholders must work together to increase the access to and use of financial services by segments of society that are currently underserved or entirely neglected. The success of the strategy will depend on the commitment of each stakeholder and the efficiency of the Financial Inclusion Secretariat and Financial Inclusion Committee in guiding their efforts.

List of Abbreviations

- AFDB African Development Bank
- AFI Alliance for Financial Inclusion
- AMCON Asset Management Corporation of Nigeria
- ARB Association of Rural Banks
- ATM Automated Teller Machine
- BOA Bank of Agriculture
- BOI Bank of Industry
- BPR Business Process Re-engineering
- BPSD Banking and Payment Systems Department of the CBN
- BSP Billing and Settlement Payment
- BSD Banking Supervision Department of the CBN
- CAGR Compound Asset Growth Rate
- CBN Central Bank of Nigeria
- CENFRI Centre of Financial Regulation and Inclusion
- CPC Consumer Protection Council
- CPS Compulsory Pension Scheme
- CUA Credit Unions Association
- CYFI Carrington Youth Fellowship Initiative
- DFD Development Finance Department of the CBN
- DFI Development Finance Institutions
- DFID Department for International Development
- DG Deputy Governor / Director General
- EFInA Enhancing Financial Innovation and Access
- EoPSD Employment-oriented Private Sector Development
- FCT Federal Capital Territory
- FMBN Federal Mortgage Bank of Nigeria
- FSD First Securities Discount House Nigeria
- FSS Financial System Strategy
- FPRD Financial Policy & Regulation Department of the CBN
- G2P Government to People
- GDP Gross Domestic Product
- GIZ Deutsche Gesellschaft fur Internationale Zusammenarbeit
- GSMA GSM Association
- IAD Independent ATM Deployer
- ID Identity
- IFC International Finance Corporation
- ITU International Telecommunications Union
- KPI Key Performance Indicator
- KYC Know Your Customer
- MDF Microfinance Development Fund
- MDRI Market Development and Restructuring Initiative
- MFB Microfinance Bank

- MFI Microfinance Institution
- MNO Mobile Network Operators
- MPP Mobile Payment Providers
- MSME Micro-Small and Medium Enterprise
- NAICOM National Insurance Commission
- NAPEP National Poverty Eradication Programme of Nigeria
- NBS National Bureau of Statistics
- NCC Nigerian Communications Commission
- NDE National Directorate of Employment
- NDIC Nigeria Deposit Insurance Corporation
- NEXIM Nigerian Export-Import Bank
- NIFI Non-interest Financial Institutions
- NGN Naira
- NIMC National Identity Management Commission
- NIPOST Nigerian Postal Service
- NYSC National Youth Service Corps
- OFISD Other Financial Institutions Supervision Department of the CBN
- OTC Over the counter
- POS Point of Sales
- PenCom National Pension Commission
- PIN Personal Identification Number
- PRA Pension Reform Act
- PFA Pension Fund Administrator
- RUFIN Rural Finance Institutions Building Programme
- SEC Securities and Exchange Commission
- SME Small and Medium Enterprise
- SMEDAN Small and Medium Enterprise Development Agency of Nigeria
- SMS Short Message Service
- SPD Strategy & Performance Department of the CBN
- USD United States Dollar
- USSD Unstructured Supplementary Service Data
- VAT Value Added Tax

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Overview of DFD Regulation

Regulation, policy or initiative	Target	Impact	Challenges
Microfinance Policy Framework 2005	To enhance access to financial services for low-income households	Good foundation for increasing access to financial services by increasing channels of delivering formal financial services to more Nigerians	Absence of tracking mechanism; roles and responsibilities of stakeholders not clearly defined
National Microfinance Development Strategy 2011	Collaboration between CBN and UNDP to develop microfinance industry by focusing on strengthening MFBs, MFIs and other providers of financial services to the low-income segment	Provides a roadmap for strengthening the microfinance sector	Recommendations set forth are high-level and lack the required depth. No actions implemented to date
Revised Microfinance Policy framework 2011	Policy revision aimed at increasing the impact of the microfinance sector. Tiered capital requirements and Microfinance Certification Programme to enhance the robustness and skill set of the industry	Policy revision could improve the impact of microfinance banks, but it is too early for evaluation	Policy does not address specific timelines and tracking mechanisms
Agriculture Credit Guarantee Scheme fund (ACGSF) 1990	NGN 3 billion fund to provide guarantees for credit extended by banks for agricultural purposes. Aim is to foster credit easing for the agriculture sector	Fund increases access to credit for farmers and promotes savings mobilisation for self-help groups	Fund size is too small to achieve significant scale
Commercial Agriculture Credit Scheme (CACS) 2009	NGN 200 billion fund to finance commercial agricultural enterprises at single-digit interest rates. NGN 26 billion disbursed to 26 states specifically for small-scale farmers	Increases access to credit predominantly for large-scale farmers	Large-scale farmers already have some access to credit, thus this does not increase FI. NGN 26 billion disbursed for small-scale farmers has no clearly defined guidelines for disbursement – created slush funds for states

Nigerian Incentive-based Risk Sharing System for Agriculture Lending (NIRSAL) 2011	NGN 75 billion risk-sharing fund targeted at the agricultural sector, to incentivise banks to increase lending to the sector	Promising initiative which can serve as a blueprint for FI for rural farmers	Impact is expected to be high, however regulation is relatively new – robust impact assessment is required to understand impact
Small and Medium Enterprise Credit Guarantee Scheme (SMECGS) 2011	NGN 200 billion fund to drive the development of the SME sector by providing guarantees of up to 80% of a loan for a maximum of 5 years	Fund increases access to credit for SMEs and provides security to banks willing to lend to this high-risk sector	Capping of banks' lending interest rate at PLR (prima lending rate) has discouraged banks from adopting or promoting SMECGS
Intervention fund for refinancing/restructuring bank loans to SME manufacturing sector 2011	NGN 200 billion intervention fund targeted at refinancing loans for SME and manufacturing sectors, creating quantitative easing and thus encouraging banks to provide more credit	Fund has made a limited contribution to FI due to its limited appeal to SMEs	Although the amount of credit for SMEs and manufacturing sectors may increase, the number of beneficiaries does not increase as disbursements are made to existing bank clients, thus having a limited impact on FI
Rural Finance Institutions Building Programme (RUFIN) 2011	Seven-year programme established through a USD 27.2 million loan and a USD 0.4 million grant to develop the capacity of MFBs and non-bank microfinance institutions in order to enhance access by the rural poor to sustainable financial services	RUFIN plays an important role in developing grass-root cooperatives and microenterprises – it has successfully introduced 33 MFBs to mix market where previously there were only 6 Nigerian MFBs	RUFIN requires more funding to expand its activities and have a broad impact. However, a ramp-up of the number of MFIs that are linked to MFBS and total amounts saved or accessed as credit is critical to justifying administrative costs of RUFIN
Entrepreneurship Development Centre (EDC) 2008	Established to develop the skill set of entrepreneurs so that they could manage their businesses better, to generate employment opportunities and develop the spirit of entrepreneurship	Over 60,000 people have been trained, exceeding the target of 45,000 – 1,367 trainees access financial services amounting to NGN 173.4 million	While efforts have been made, more scale is required to create a significant national impact
NYSC Entrepreneurship Training Programme 2006	Sensitisation exercise of NYSC members on various schemes by DFD of CBN		

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