

# FINANCIAL INCLUSION: USING CARD TO CAPTURE THE BOTTOM OF THE PYRAMID IN NIGERIA



*“In new market areas, regulators have a delicate task: neither over-reacting and stifling market development, nor under-reacting to potential large scale risks until it is too late. While delicate, the task is not impossible. Managing possible trade-off between innovation and stability is at the heart of good policy and regulation. If policy makers develop a clear market development strategy, this not only brings greater certainty but also enable regulators to take a sequenced, proportionate response to the risks involved”.*

David Porteus (2006, pg 37)”

**E-PPAN ADVISORY COMMITTEE ON  
FINANCIAL INCLUSION IN NIGERIA**



# Contents

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1. Introduction.....	3
2. Background.....	4
3. Focus of the Committee.....	7.
4. Recommendations.....	10
5. Action Plan.....	--...11
6. Conclusion.....	15
Annex.....	17



# Introduction

In order to address the issues of financial inclusion, the E-Payment Providers Association of Nigeria (E-PPAN) organised the quarterly Techno-Interactive Forum, Series 4 with the theme “Financial Inclusion: Exploring Card Business to Capture the Bottom of the Pyramid”. Issues were raised and discussed with experts and the general public. It was obvious from the discussions that a large number of persons and especially those in rural areas do not have access to financial services and that the formal sector has not been expanding rapidly enough where services to the masses are concerned. It was established that the largest, yet poorest socio-economic group, typically lives on less than ₦500 per day in Nigeria and that within this group exists an answer to resolving our economic quagmire. Expert views and advice at the forum was that payment cards among other forms of e-payment will serve as a right channel to resolve the dilemma of the BoP.

To further their efforts on achieving financial inclusion using cards, stakeholders constituted an Advisory Committee under the Chairmanship of Mr. Sola Bickerseth. The Advisory Committee had the mandate to come up with a blue print on how cards can be used to enhance financial inclusion. The Committee was asked to come up with advice to the Federal Government, and the CBN on the best possible ways in which this feat could be achieved. The Committee had to liaise closely with experts and made references to other economies and use their achievements as pointers to guide our own targets.



# Background

**N**igeria has a population of over 148 million people. It is the largest country in Africa and accounts for 47 percent of West Africa Population. Nigeria is also the second largest economy in Sub Sahara Africa and accounts for 41 percent of the region's GDP. Of the 148 million people in Nigeria, the CBN (2008) declared that 70% are unbanked. What this means is that the cash spent by over 103 million persons in Nigeria do not pass through the formal financial sector.

Nigeria has gone through series of political upheavals and has gradually since 1999 began to settle into a democracy. Since embracing democracy in 1999, there has been relative political stability which has gradually encouraged economic development. This development is further accentuated by the present administration which is hinged on a 7 point agenda which are:

1. Power and Energy
2. Food Security
3. Wealth Creation
4. Transport Sector
5. Land reforms
6. Security
7. Education



Crucial to achieving the above agenda is the Nigeria Vision 20:20 which aim at making Nigeria one of the 20 largest economies in the world by the year 2020. The Central Bank of Nigeria also fashioned out the Nigeria Financial System Strategy 2020 which aims to transform Nigeria's financial services industry into a catalyst for growth, develop Nigeria into an international financial centre, and transform Nigeria into one of the twenty largest economies in the world by the year 2020.

In 2009, the federal government of Nigeria mandated that all civil servants salaries and federal government contractors be paid electronically.

In July, 2010 the National Identity Management Commission (NIMC) flagged off the earlier agreed mandate of ensuring that over 100 million Nigerians are captured in the next national identity enrolment exercise in the next two and a half years with the signing of a concession agreement with Front End Partners, the Chams Consortium and Iris One Secure Card Consortium. The citizens will be issued with a General Multi-Purpose Card (GMPC)

The Chairman, Board of Directors of the NIMC, Prince Uche Secondus, stated that the action was a necessary commitment that signified governments' resolve to partner with the private sector in order to supply important social infrastructure that would enable government to deliver on its responsibilities: security of lives and properties, and access to consumer credit. This, he said, would enhance sound economic development through contributing to growth in Gross Domestic Product (GDP), creating new economic and employment opportunities, revenue collection and generation among other services that would touch the lives of the poor and improve the image of the nation.



The initiative is:

1. Targeted to foster the orderly development of an identity sector:

- Enable individuals prove their identity in a dependable manner through the provision of customer focused, scalable and trusted identity services;
- Facilitate the attainment of socioeconomic development goals;
- Value adds-service transformation and improved quality of life of citizenry;
- Provide appropriate legal and regulatory framework for Public Private Partnership (PPP).

2. Develop a modern identity management system infrastructure:

- Have a National Identity Database as a component;
- Develop a strong identity verification and authentication infrastructure;
- Establish permanent Identity Registration Centres with wider coverage;
- Be integrated with existing ID schemes;
- Facilitate identity management, rather than ‘Card Issuance’;
- Foster socioeconomic development (secure e-ID and enable e-applications);
- Help fight crime.



# Focus of the Committee

E-PPAN is quite convinced that the advent of this GMPC will serve as a channel for achieving financial inclusion using cards.

The committee therefore devise ways to advise, monitor and generate structure to ensure that the two consortia meet with the mandates of providing inclusive coverage for the very bottom of the pyramid which we have often times neglected in provision of financial services. Therefore the focus of this work is in line with the objectives of this committee as contained in the terms of reference, which are as follows:

1. Identify key challenges faced in providing or receiving appropriate financial services to the bottom of the pyramid.
2. Advice on developing a common vision for greater financial inclusion in Nigeria using the e-payment channels with emphasis on cards
3. Advice on how to establish greater involvement of financial institutions, in the extension of financial services to the bottom of the pyramid.
4. Suggest a coordinated and collaborative approach in the development of greater financial inclusion using cards in Nigeria.
5. Suggest measures including institutional changes to be undertaken by the financial sector to implement the proposed strategy of financial inclusion.
6. Advice on developing a national strategy for developing greater financial inclusion in Nigeria.



In order to achieve its objectives the Advisory Committee examined the key challenges faced in providing or receiving appropriate financial services to the bottom of the pyramid.

**The Key challenges faced in providing or receiving appropriate financial services to the bottom of the pyramid:**

- Absence of government infrastructure and e-payment driven infrastructure.
- Financial Inclusion deals with overall financial services not just banking but also financial services such as insurance, Government to Citizen (G2C) services, electronic payment and commerce and other credit services.
- The existing number & distribution of touch point for financial services which include POS, ATM, Mobile commerce, insurance and Money Agent etc is inadequate to service the BOP.
- Absence and in-access to various citizen activities transaction history database that is interconnected, for the use of providing financial services to the BOP.
- The inability of large portion of the BOP to meet the basic (formal) identification requirement (KYC) and absence of functional unique identifier identity management system.
- Lack of formal recognition, inclusiveness and level playing field for both small and large financial services providers to co – operate within the system e.g. Cooperative societies, Esusu, Ajo, Asusu , G2C services.



- Lack of Standardization, interoperability & interconnectivity of all existing payment structure?
- Inability to build confidence and trust in existing e-service delivery infrastructure accessing financial services.
- Illiteracy and poor awareness of the BOP of the benefits of the available financial services.



# Recommendations

From the issues above, challenges faced in providing or receiving appropriate financial services to the bottom of the pyramid in Nigeria are numerous. This Working Committee recommends that concerted efforts be made to consider and implement the following strategies:

**1. Develop a common vision for greater financial inclusion in Nigeria using the e-payment channels with emphasis on cards which includes:**

- The adoption and immediate implementation of various recommendations and prayers of the various committees of the Federal Government/CBN FSS Vision 2020
- The Committee advocates that a mechanism which is spear headed by E-PPAN be put in place for the actualization of the recommendations reached at the various CBN working group to enhance financial inclusion of the BoP.

**2. Facilitate greater involvement of financial institutions (all categories and level), in the extension of financial services to the bottom of the pyramid such as :**

- The creation of a National Financial Inclusion Scheme based on the GMPC framework of the National Identity Management System and its Partners.
- Using the National Financial Inclusion Scheme to leverage on the GMPC frame work which should provide access to various citizen



activities transaction history database that is interconnected, for the use of providing financial services to the BOP

- Ubiquitousness and penetration of e-payment infrastructure such as financial touch point services which include: ATM, PoS, Mobile commerce, insurance and Money Agent etc to enhance financial inclusion of the BoP.

**3. Suggestion of a coordinated and collaborative approach in the development of greater financial inclusion using cards in Nigeria, such as |:**

- The formation of a Not-For-Profit organisation to coordinate the activities of the proposed financial inclusion scheme. The body should have a multi-stakeholder composition to ensure its total fairness and independence.
- The Not-For-Profit organisation should have the involvement of stakeholders, GMPC Consortia members; Banks, NIMC, Immigration, Microfinance Banks, USAID, with E-PPAN has the custodian and the Central Bank as the Founding Owners (Board of trustees).

**4. Suggestions of measures including institutional changes to be undertaken by the financial sector to implement the proposed strategy of financial inclusion which includes :**

- The promotion of a Financial Inclusion Act that ensures easy, affordable and responsible access to financial services such as credit facilities, mortgage, insurance and others within the economy.



- The need for regulators to ensure low cost access for the masses that is integrated with the economy.

i. *KYC Norms:* Re-evaluation of KYC practices that have contributed to financial exclusion of the large masses especially in the case of low value digits. e.g *Account opening procedures should be risk-based and not unduly prejudice remote account openings by small customers.*

ii. *KYC regulations Reform:* Reformation of regulations put in to ensure financial integrity that can discourage the Bop and hence affect the aim of financial inclusion. e.g. *Either there should be exemption from the rules for small accounts or suitable guidance should be developed that will allow small accounts to be opened.*

- **The need for regulators to ensure that the system can serve heterogeneous requirements**

i. *Inherent flexibility:* A one size fit all approach that is currently the practice in banking regulation needs to change to become more flexible and adapt to the different needs of the consumers at the bottom of the pyramid, who are a highly heterogeneous group.

**5. Ensure entry by ensuring a high degree of inclusiveness in types of service providers, ensuring a level playing field, and also ensure that both large and small players can enter the industry.**



- The Formal recognition and inclusiveness of local co-operative societies such as the “Asusu”, “Esusu”, “Ajo”, and government to citizen services (G2C) into the financial mainstream as financial service providers.

## **6. Advice on developing a national strategy for developing greater financial inclusion in Nigeria.**

- I. The committee suggests a national Survey to measure Financial Inclusion for the BoP.
- II. Raising Awareness: The committee also recommends that Public authorities, regulators and stake holders need to raise awareness of financial products and services among the BoP to tackle their reluctance to use financial services, hence reducing the population at risk.



## Recommended Action Plans

- The immediate creation of a Not-For-Profit Organization which will monitor the following:
  - The implementation of all recommendations reached at the CBN working group which will enhance the financial inclusion of the BoP by electronic payment.
  - The process/progress of the GMPC card by NIMC
  - Pursue sufficient legal certainties about the status of electronic payment which will build the confidence of the BoP's in electronic transactions and adequately protect them against fraud and abuse.
- There should be urgent reforms of KYC Practices and regulations that hinder financial Inclusion of the BoP's.
- Federal Government should engage in a national survey to measure Financial Inclusion.
- Adequate provision should be made for the issuance of e-money by appropriately capitalized and supervised entities, which are not necessarily banks.
- The CBN should pursue strategies for availability and accessibility of more financial service touch points for the BoP's



# Conclusion

**D**espite decades of progress in the financial systems and markets in Nigeria, the masses continues to depend on cash for their transactions and remain outside the scope of the formal financial sector. There is a vast and diverse group of people whose financial needs are going unmet – marginal farmers, agricultural labourers, migrants, employees and entrepreneurs in the unorganized sector, socially excluded groups etc. Their cash flows of income, savings and consumption are of low levels and often of uncertain, irregular nature, making them unattractive clients for the formal financial sector. Yet, bringing the poor and poorest into the system has large savings in the present transaction costs of dealing with cash and has the potential of boosting economic growth. Thus financial inclusion must be recognized as a goal by all policy makers as the economic growth and development story will remain incomplete without participation by the poorest of the poor. However policy makers in the government and at the CBN continue to emphasize the role of the banks, even as it is clear that market failure has arisen in meeting the goal of financial inclusion precisely because of a mismatch of the needs of the formal financial sector and the low income consumer. It is time to look for new non-bank based models that can fill in the gaps.

Evolving technology has changed the landscape of the financial world as electronic payments bring with them significant efficiencies. Further, with the fast adoption of electronic payment and spread of the networks, costs of making transactions have been significantly reduced. Experiences in other countries and modern technology show that the future lies in involving non-bank institutions as intermediaries. While vigilance is justified when confronted with new, unfamiliar systems, stifling innovations and market developments through extreme caution



will only retard the growth trajectory of the economy. The policy makers should therefore work towards providing an environment where all stakeholders can perform the functions they do best. An added problem in the electronic payment space is that the overlapping roles of multiple regulators leads to coordination failure and this should be well understood by all policy makers. The need of the hour therefore is to work with clarity and consistency and speed up the process of moving towards greater openness and greater certainty in the electronic payment/identification sphere.



## ADVISORY TEAM MEMBERS:

### The Members of the Financial Inclusion Advisory Committee

- Sola Bickersteth - Committee Chairman
- Victor Alaofin - Intech Solutions Ltd
- Sarkiyaki Mohammed - National Pension Commission
- Babatunde Okeniyi - Valucard Nigeria Ltd
- Osagie A. J. - Federal Inland Revenue Service
- Oloniteru Olutoyin - 3Line Card Management Ltd
- Adams John - Interswitch Nigeria Ltd
- Elumeze Austin - Nextzon Business Services Ltd
- Obabori B. O. - Federal Inland Revenue Service
- Olatilo David - E-Payment Providers Ass. Of Nigeria
- Onajite Regha - E-PPAN Secretariat (Secretary)
- Niyi Ajao - Nigeria Inter-Bank Settlement System
- Peter Asolo - Fin Bank Plc
- Akeem Lawal - Interswitch Nigeria Limited
- Nnene Ntia - E-Payment Providers Ass. Of Nigeria



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**E-Payment Providers Association of Nigeria  
(E-PPAN)**

33A Bishop Abayode Cole Street

Victoria Island, Lagos

Tel: 234 1 9582907

Mob: 234 8033013614

email: [info@e-ppan.org](mailto:info@e-ppan.org)

URL: [www.e-ppan.org](http://www.e-ppan.org)

