Digital Financial Inclusion in Nigeria and Uganda: opportunities and remaining challenges

Learning paper of the financial inclusion events in Nigeria and Uganda

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Earlier this year, the World Savings and Retail Banking Institute (WBSI) programme for financial inclusion, Scale2Save, through the support of the Mastercard Foundation, hosted in-person knowledge exchange events in Nigeria and Uganda. The workshops were attended by practitioners and experts from the financial sector, research institutions, civil society, and the media. Across the two events there were many interesting discussions, however, the potential and challenges around digital financial inclusion (DFI) was a recurring theme across the two events. In this note we summarize key challenges and opportunities for digital financial inclusion discussed during the two events as well as examples from Scale2Save partners and publications.

This note was prepared by the Mastercard Foundation Savings Learning Lab, a six-year initiative implemented by Itad to support learning among the Foundation's savings sector portfolio programmes: Scale2Save and Savings at the Frontier.

DFI means providing digital access to formal financial services to excluded and underserved populations. Digital technology has played a significant role in changing the sector and advancing financial inclusion in recent years. This was particularly true during the COVID-19 pandemic, which saw an increased uptake of cashless services and clients using e-banking services, including mobile banking, Point-of-sales (PoS) transactions, and card payments. The Nigeria Inter-Bank Settlement Systems (NIBSS) estimates the volume of ATM transactions has grown exponentially in the last six years, more than doubling since 2015 to over 850M in 2019[1] and USD 340,314 mobile payments per day in Uganda by 2021[2] Additionally, data from Bank of Uganda (BoU)[3] indicates that the number of active debit cards increased by 12.4% from 2.59m in March 2021 to 2.91m in March 2022 while debit card transaction volumes increased by 28.01% from 4.4 million transactions in March 2021 to 5.68 million in March 2022. Credit card transaction volumes increased by 62% from 142,350 to 230,910 transactions over the same period. However, there is an indication that digital transactions are declining and returning to pre-Pandemic levels and there are still challenges that need to be overcome if digital is to deliver on its transformational potential. Challenges such as the limited interoperability for card payments as well as cyber security threats still hamper the wider use of the digital platforms.

What are those challenges, and why do they matter?

Digital platforms can expand access to financial services, but they also exclude. Access to financial services, particularly digital financial services is highly gendered and fraught with inequalities. For instance, while ownership of mobile phones has increased overall[4] in Uganda, many women, especially in rural areas, do not own mobile phones (typically required for these transactions). Whilst this is different for women in Nigeria, access to the mobile internet is still a challenge[5]. In reality, those who do not have these resources become dependent and at the mercy of those who do, further widening the inequality gaps.

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[1] Adeyemi Adepetun, 2020, https://guardian.ng/news/atms-dispense-n30tr-in-six-years-despite-errors/

[2] Bank of Uganda, https://www.bou.or.ug/bou/bouwebsite/PaymentSystems/privatesector.html

[3] Bank of Uganda Annual Report (2021 and 2022)

[4] British High Commission Abuja and British Deputy High Commission Lagos, 2021, https://www.gov.uk/government/news/nigeria-new-data-from-efina-shows-financial-inclusion-growth

[5] https://openknowledge.worldbank.org/bitstream/handle/10986/38148/IDU0bbc001f30973f04bf00a8db0909f3bff190a.pdf?sequence=1&isAllowed=y

Usage of digital accounts remains low: there has been a steady increase in digital accounts being opened – 45.3 million bank accounts were opened in Nigeria in January 2022[6]. Only 33,7%, however, of these bank accounts are active (doing at least one digital payment/year). In Uganda, 65.9 million bank accounts were opened with 62.6% activity rate on a yearly basis. This shows that getting customers to open accounts is not the problem but getting them to open and utilize them remains problematic. Low- income customers are particularly sensitive to the cost of digital transactions.

Infrastructure for digital transactions can be a barrier to access DFS: connectivity, electricity and infrastructure required for digital financial inclusion are not always present or reliable in rural areas. The access to electricity in Uganda is 57%, with only 19% being on-grid and 38% being off-grid connections.[7] This is still below the National Development Plan III target of 60%. Even with 80 per cent of Nigeria's urban population connected to the national grid, the electricity supply is still below average. Over 92 million Nigerians do not have access to electricity.[8] This lack of access to electricity limits the ability to use digital tools like telephones (which require frequent recharging) or even the placement of digital operators (like agents) who would need access to power to operate their digital operations. In Uganda, regarding fiber optic networks, there are only 3,517 mobile towers in the country, leaving a gap of 3,500 towers. This coverage totals 12,000km, although there is route duplication, making it effectively less than 4,000km, covering only 49% of the districts in Uganda.

Regulations have improved but are still a barrier to many potential customers: Even though the Central Bank of Nigeria (CBN) has simplified the Know-your-client (KYC) regulations required for clients to open accounts through the three-tier system of using the Bank Verification Number and National Identification Number (NIN), FSPs say this is still a challenge. In Uganda, the National Identification Numbers are a prerequisite to onboard customers onto the FSP account opening platforms, however, most people have struggled to get there, with approximately 33%of Ugandans[9] yet to acquire one. Others have either incorrect details or misplaced or lost their national identity documents.

Risks associated with digital transactions are high: Increased cases of accidental transactions and security breaches associated with telcos and mobile apps are a deterrent to customers, diminishing trust in an already fragile ecosystem. An investigation in Nigeria by The Guardian revealed that three in every 10 transactions failed during the 2020 Eid-El Kabir celebration. NIBSS puts failed PoS transactions at 23 per cent[10]. Similarly, according to the Uganda Police Crime Report[11],over $1,273,079 (0.78% increase from 2020) was lost due to cyber fraud in 2021. The learning event in Uganda raised the deactivation of telephone lines by the Uganda Communications Commission after 90 days of inactivity, a significant risk to financial institutions. Telephone numbers, a key identification tool for financial institutions, must be reissued and this opens up potential loopholes to defraud individuals and financial institutions.

[6] Figures quoted during the Scale2Save Learning Exchange Keynote address delivered by Adetunji Afolabi, Chief Operating officer, Nigeria Microfinance Platform.

[7] Kwasi Kpodo, African Development Bank, 2021, https://www.afdb.org/en/news-and-events/press-releases/uganda-launches-last-mile-connectivity-increase-electricity-access-rural-communities-45797

[8] Tunde Ajaja, punchng.com, 2022, 92 million Nigerians lack access to electricity, worst globally – Report

[9] Samuel Okiror, Global development, 2021, https://amp.theguardian.com/global-development/2021/jun/09/ugandas-id-scheme-excludes-nearly-a-third-from-healthcare-says-report

[10] Adeyemi Adepetun, 2020, https://guardian.ng/news/atms-dispense-n30tr-in-six-years-despite-errors/

[11] Uganda Police Force, 2021, https://www.upf.go.ug/annual-crime-report-2021/

What needs to be done?

Despite these challenges financial inclusion is an enabler for adding value to people's lives and digital financial inclusion remains key to drive savings and improve financial products and services.
As mentioned by the Nigeria event keynote speaker: *"Key issues to focus on for the future are leveraging technology to drive inclusive savings. And this will involve collaborations between FSP and tech organizations. Secondly, invest in research to understand behavioral patterns and needs. Third, Inclusive financial services whereby in designing products you must consider ease and convenience of the client." Adetunji Afolabi, Chief Operating Officer (Nigeria Microfinance Platform)*
Below are opportunities presented during the learning events to overcome some of the challenges discussed in the previous section.

- ***Strengthen the digital ecosystem to increase confidence***: Where structures and systems that protect users from fraud and other negative impacts are absent, countries will continue to experience 'half-baked' results. Therefore, one recommendation is to harmonize the SIM card registration process between agencies and weed out re-registration of deactivated numbers to ensure safe and secure use. Another recommendation is adopting regulation that strikes a balance between financial inclusion and maintaining financial integrity, through either a tiered or a risk-based approach in line with FATF guidance.[12] S2S experience has shown that basic entry level account can help to serve the low-income segment but some higher KYC requirement such as the Bank Verification Number (BVN) in Nigeria are often preventing fraud and better protect the customers. Opening up infrastructure between stakeholders (such as the shared-agency model in Uganda between Centenary Bank and Finca) can help but strengthen the process would be needed.
- ***Improve product design and costing through increased understanding of customer needs***: FSPs should continue the research carried out through Scale2Save to understand clients' needs and behaviour by segment (i.e. women and young people). For example, LAPO partnered with IDEO.org to assess, articulate, and improve how their savings product "My Pikin & I" connects with and works for Nigeria's low-income earners. FSPs should also encourage co-creation, involving clients in developing products. For example, using supply and demand side data about customers, as detailed in this Scale2Save case study[13] allows FSPs to conduct meaningful customer segmentation, develop clear product designs as well as channel and distribution strategies. Another example is using data to create customer-centric financial products as detailed in the Persona Segmentation Toolkit[14] featuring data from Nigeria.
- ***Improve coordination between MNOs and FSPs***: Structure ways to share data and business cases between the MNOs and FSPs about opportunities for market expansion. Currently, the silo approach diminishes the opportunity for growth and inclusion. This would also address the challenges related to lack of infrastructure and fraud risk. Successful FSPs realize that their organizations are part of an ecosystem that includes financial regulators, other FSPs, and non-financial providers active in the ecosystem, and actively seek cooperation with other actors.[15]
  "We don't need more bricks and mortar we need more services and partnerships with MNO's. Bank branches are not the issue; people can open an account with their mobile phones.

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[12] WSBI, Scale2Save, 2022, https://www.wsbi-esbg.org/wp-content/uploads/2022/09/2489_WSBI_BRO_S2S_SURVEY-FULL.pdf
[13] WSBI, Scale2Save, 2022, https://www.wsbi-esbg.org/wp-content/uploads/2022/07/S2S_Case_study_6_digital.pdf
[14] WSBI, Scale2Save, 2022, https://www.wsbi-esbg.org/persona-segmentation-toolkit/
[15] WSBI, Scale2Save, 2022, https://www.wsbi-esbg.org/wp-content/uploads/2022/02/1769_ESBG_BRO_SCALE2SAVE_4-FINAL.pdf

*Innovations and pivoting towards digital platforms are the future of financial inclusion.**" Michael Atingi –Ego (BoU)***
For more information on the innovative business models used in the Scale 2 Save programme – see this learning paper.

- ***Improve Regulations around digital financial inclusion***: Regulatory bodies like Apex banks must take the lead in developing regulatory policies that support digital financial inclusion and its practical implementation. For example, in Uganda there is a review of the National Payments System Act to accommodate more innovation promotion, digital payments and reducing the costs of transactions. In developing regulations, stakeholders need to consult broadly to ensure regulations are inclusive. Share agent infrastructure
- ***Approach digital financial inclusion holistically***: Stakeholders need to adopt a holistic approach regarding digital financial inclusion. For instance, as Nigeria and Uganda embrace improved digital infrastructure and inclusion, emphasis needs to be on how these provide opportunities for young women and men. For example, agent banking and mobile banking services contribute to a widespread increase in women savers (LAPO Microfinance Bank) and improve pathways to regular savings for customers in Uganda (Centenary Bank)[16].

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Annex 1: Background

WSBI created in 2016 a new programme in partnership with the Mastercard Foundation "to establish the viability of low balance savings accounts and use of customer-centric approaches to address barriers faced in access, usage and affordability of savings services".

Called Scale2Save, the programme is set against a backdrop of problems such as high poverty rates and financial exclusion in sub-Saharan Africa, as well as low formal savings rates. FSPs have a poor understanding of the market savings potential of people in various low-income segments. A notable, but not the only, example is that of young adults living in someone else's home. The needs of customers and potential customers – and how much customers can afford to pay to meet those needs – are not well reflected in FSPs' business models, customer interfaces and interactions. The resulting poor customer experience gives rise to extremely high rates of bank account dormancy and inactivity. This is a significant cost for FSPs and undermines potentially sustainable business cases to deliver accessible financial services to people in these segments.

The Scale2Save programme's core activities are to:

•Provide banks with technical assistance to develop savings services valued by low-income customers. WSBI works with nine banks to develop and deliver savings products that not only increase access to financial services but also drive ongoing use of those services. The banks are in Cote d'Ivoire, Kenya, Morocco, Nigeria, Senegal, and Uganda. A bank in Tanzania acts as a knowledge partner.

[16] WSBI, Scale2Save, 2022, https://www.wsbi-esbg.org/wp-content/uploads/2022/09/2449_ESBG_BRO_SCALE2SAVE.pdf

•Conduct research and share lessons between partner banks. WSBI publishes the annual report Savings and Retail Banking in Africa to facilitate peer learning and the spread of knowledge. The institute also researches new pricing models to help establish a business case for low-balance savings and conducts household research to contribute to the knowledge base on cash flows in households.

•Communicate learnings to the wider sector. WSBI has developed and carried out a targeted communications strategy to spread the knowledge created by the project to key stakeholders.

•Monitor and evaluate the programme. WSBI monitors project progress at partner banks and oversees mid-term and final project evaluations.

The programme started in September 2016 and will continue until February 2022.

Learn more about Scale2Save at www.wsbi-esbg.org/KnowledgeSharing/scale2save or on Twitter at @scale2save.

Annex 2: About the World Savings and Retail Banking Institute

Founded in 1924, WSBI is an international banking association committed to help savings and retail banks thrive. To do this, it represents the interests of 6,760 banks on all continents. As a worldwide organization, WSBI focuses on international regulatory issues that affect the savings and retail banking industry. It supports the aims of the G20 in achieving sustainable, inclusive, and balanced growth, and job creation, whether in industrialized or less developed countries. Supporting a diversified range of financial services to meet customer need, WSBI favours an inclusive form of globalisation that is just and fair. It supports international efforts to advance financial access and financial usage for everyone.

The association has members in some 80 countries in the Americas, Africa, Asia, and Europe. These members are either individual financial institutions or associations of retail banks. All members share three features: they are active in the retail banking segment, have a strong regional presence and show a responsible attitude towards business and society. The total assets of all member banks amount to more than $16,000 billion, non-bank deposits to nearly US$9,000 billion. Serving some 1.7 billion customers, WSBI members are committed to further unleash the promise of sustainable, responsible 21stcentury banking. Learn more at www.wsbi-esbg.org on Twitter at @wsbi_esbg.

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