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An Analysis of Financial Inclusion in Nigerian Banks: From the Prospects and Challenges Perspective

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Abstract:

Financial inclusion has received increased attention as the panacea to improving the economic livelihood of unbanked and the under banked. The study aimed to identify the potential benefits and obstacles to financial inclusion in the Nigerian Banking system. Relying on various journals and literature contents, this article utilised narrative analysis to highlight different benefits and challenges of financial inclusion in Nigerian banks. Leveraging on convenience sampling, interview sessions were conducted focusing on a bank customer, a banker and an economist. Findings revealed that amongst others, the sustained review and enacting of different laws, guidelines and regulations aimed at ensuring a "future ready" Nigerian banking system is the right step towards a high financial inclusion level in Nigeria. However, despite these predictions, the low financial literacy levels (among others) were identified as obstacles affecting the implementation of financial inclusion in Nigeria. The paper concludes by proffering various recommendations such as implementing an enabling regulatory environment, which is critical to ensuring the benefits that can accrue from an upsurge in Nigeria's financial inclusion level.

Keywords: Financial inclusion; financial literacy levels; Nigerian banking system

1. Introduction

The notion of financial inclusion started gaining global relevance in the early 2000s (Robert, 2010). A review of most scholarly submissions high-light the fact that the purpose of financial inclusion is to improve economic growth by increasing the economic well-being of people at the base of the pyramid and unbanked by availing them affordable financial services at a reasonable at reasonable costs. Studies such as Moghalu (2012); Kama and Adigun (2013) have shown that a financial ecosystem that can improve the economic well-being of all the participants within it has become the focus for many economies. Aina and Oluyombo (2014) argued that one reason for the prioritization of this all-inclusive economic policy is its ability improve the economic capability of the unbanked who are excluded from formal financial banking channels. Kama and Adigun (2013) further affirmed that improving the economic capability of this unbanked would help to bring funds that were previously outside the banking system into the formal system thereby helping to increase the funds that can be made available for funding business loans requests.

The objectives of this study is therefore to examine the prospects, the challenges of financial inclusion with a particular reference to Nigerian Banks and also proffer recommendations which would help to improve the level of financial inclusion in Nigeria.

1.1. Statement of Problem

Kama and Adigun (2013) pointed out that by reducing the exclusion levels (providing access to formal financial services) of Nigerians, funds that were previously outside the financial system would be brought in and utilised to improve the economy. To reason critically through the thoughts of Kama and Adigun (2013), one could be justified to surmise that by providing low-income earners access to suitable and cost-effective financial products and services, deposit mobilisation, increased access to loans and other risk reduction products within the economy would be greatly enhanced. Various reports including the most recent Access to Finance report conducted by Enhancing Financial Inclusion and Access (EFInA) in 2018 revealed that 36.8% of Nigeria Adults are financially excluded and have their savings outside the financial ecosystem. This highlights a large quantum of under-utilized funds/ savings held in small amounts which if it is brought into the formal banking system, can provide a large pool of cheap investible capital that could be available as credit for the deficit and entrepreneurial sector of the economy. However, despite the increasing realisation of the benefits accruable to any nation implementing a financial inclusion policy, achieving a high level of inclusion remains a huge challenge in Nigeria. In fact, statistics has shown that the rate of formally banked Nigerians is only 39.7% (EFInA, 2018). This situation is compounded with by the paucity of research on the impact financial inclusion in developing countries such as Nigeria, a shortcoming which this article hopes to reduce.

1.2. Objectives of the Study

The objectives of this research article are to:

- Evaluate the benefits of Financial Inclusion in the Nigerian Banking system
- Identify the impediments to achieving high financial inclusion with a particular reference to the Nigerian Banking Sector
- Proffer suggestions which would ensure that the financial inclusion levels in Nigeria is significantly improved.

Thus, this article is presented in the following manner. Following the introduction above, section two under literature review and looks at the key concepts of the study. Section iii is the section on methodology while section iv reviews the potential benefits and impediments to achieving high financial inclusion in the Nigerian Banking system. Section v provides conclusion and recommendations.

1.3. Research Questions

Based on the above, this research seeks to provide insight to the following:

- What are the benefits accruable to implementing Financial Inclusion in the Nigerian Banking system?
- What are the identified obstacles to implementing high Financial Inclusion in the Nigeria Banking System?
- What should be done to overcome these obstacles?

2. Literature Review

2.1. Conceptual Review of Financial Inclusion

According to Serrao, Sequeira and Varambally (2013), financial inclusion refers to the provision of and access to financial services to the low-income and economically poor at a cost that is affordable to them. Serrao et al. (2013) posited further that financial inclusion includes access to and the availability of different or various types of formal financial services at a reasonable cost. This position is hardly different from those of Uma, Rupa and Madhu (2013) who posited that financial inclusion refers to a standard used to assess how formal financial services are able to reach the different people within the economy. They stated that financial inclusion refers to a term commonly used to depict a deliberate attempt which makes the marginalized and people vulnerable to low economic means to engage in the formal economic processes through the usage of formal financial services. To buttress this position, Mbutor and Uba (2013) posited that financial inclusion is the availability of reasonably priced financial services to the economically poor. Brian (2014) also opines that financial inclusion is situation where people have easy access to wide range of financial products and services from various formal service providers.

A critical look at the submissions of Serrao et al. (2013); Uma et al., (2013); Mbutor and Uba, (2013) and Brian (2014), it could easily be discerned that delivering low cost financial products and services to the economically poor and the unbanked segment of the society seem to be the crux of the concept. In this sense, there is little to wonder given the position of Nalini and Mariappan (2012) who highlighted that the driving force behind the idea of financial inclusion is to connect individuals with financial institutions with the purpose of improving their economic capabilities. Nalini and Mariappan (2012) argued that this unique positioning helps to make sure the formal financial system improves growth on an individual and national level via the provision of easy access to affordable financial services thereby empowering financial consumers especially adults at the bottom of the financial pyramid; by giving them the opportunity to have access to bank accounts and be able save and invest. Umaru (2014) convened that the banking system of any economy plays a critical role in national development; arguing that improving financial inclusion has the ability to improve the economy of a nation and reduce poverty levels. Mbutor and Uba (2013) pointed out that financial inclusion basically focuses on the provision of inducements that would allow the populace overcome the poverty barriers central to poverty reduction. Mbutor and Uba (2013) agreed with the position of Umaru (2014) on the premise that this can only be achieved where the banking system is functionally encompassing. The strength of these scholarly submissions lies in the fact that financial inclusion is in fact, very imperative for the growth process of any economy including Nigeria because as more individuals are brought or captured into the formal financial system, it will help ensure proper planning and decision making by policy makers.

2.2. Theoretical Framework

The underpinning theory of this study is the Great Spurt, which postulates that for a less developed nation to grow from the levels of economic backwardness to an industrial modern economy, such country needs or requires a very sharp break with the great spurt of industrialization. According to Balami (2006), the theory established that industrialization as a process differs from one country to another depending on the level of the country's backwardness. The theory holds that, all countries were once backward and classified countries into very backward, backward, moderate and advanced. It also stated that that banks and government will often start the development in the countries and therein bring to fore the importance of financial inclusion as the launch pad (great spurt) to drive economic revolution for countries with high financial exclusion. The features of this theory greatly align with the characteristics and desired of the study in Nigeria.

2.3. Empirical Review

Several studies have examined the prospects and challenges of financial inclusion in the banking system. Moghalu (2012) reported that the dearth of access by millions of adults to financial services all over the world seriously poses immense challenges to the global economic development and growth. Using time series and cross-country analyses, Levine

(2005) established that the services provided by banks and other financial intermediaries do have the immense tendencies to enhance financial inclusion irrespective of the development status of a country. Similarly, Rajan and Zingales (2003) affirmed that the irrefutable that differences in long-run economic growth across countries can be explained by disparity in financial development, pointing that economies that have achieved greater levels of financial inclusion tend to have more prospects of sustained economic growth. Coming locally, Sanusi (2011) also attributed that the rise in the level of poverty in Nigeria poses a greater challenge of financial inclusion. According to Sanusi (2011), achieving prime level of financial inclusion would mean empowering 70% of Nigerians living below poverty level. Mohan (2006), pointed that if access to financial products and services improve, financial inclusion affords immense benefits to the regulator, consumer as well as the economy alike.

2.4. Synopsis of Financial Inclusion in Nigeria

The need to migrate the considerably huge volume of idle and unutilised funds outside the Nigerian formal banking system underpins the need to improve its financial inclusion levels. Over the years, the central bank has introduced different initiatives aimed facilitating the easy and affordable access to financial products and services by the unbanked and underbanked. Kama and Adigun (2013) purported that since 2005, the country's financial services sector has seen an upsurge in the implementation of various activities by various stakeholders targeted at initiating various policies and strategies that are aimed at reducing the financial exclusion levels. The CBN which has been one of the main proponents of this initiative continues to encourage the introduction of policies, guidelines and strategies focussed at the economically poor and financially excluded. Some of these initiatives include:

- The Financial System Strategy 2020 (FSS2020)
- National Financial Inclusion Strategy
- Introduction of the Consumer Protection Framework
- Guidelines to license Payment Service Banks
- The know your customer guidelines

Despite these strategies being implemented in a bid to improve financial inclusion in Nigeria, its impact and expected improvements have not been as anticipated and has continued to be challenging, an issue which necessitates the additional exploratory review into this issue.

2.5. The Nigerian Banking System and Financial inclusion

Like other financial institutions, banks play a vital role in financial inclusion. It starts with the opening of a customer bank account (inclusion into the formal financial system). In a recent (2016) survey of World Bank, it has been found that around 50% of the world population has at least a bank account. The role of banks in increasing the levels of financial inclusion is very critical in any economy. In fact, one may argue that financial inclusion would hardly be possible without an efficient banking system to help drive it. In this regard, there is little to wonder why most countries including Nigeria currently develop their financial inclusion programs in such a manner where its growth in financially excluded areas is facilitated by banks.

Kama and Adigun (2013) posited that in their role towards increasing financial inclusion, banks must develop innovative means through which financial resources and services can be accessed cheaply by the vulnerable poor to cut down on transaction costs.

3. Methodology

3.1. Research Design

To address the research questions listed above, the study utilized the mixed method research design approach. On one hand, the study reviewed previous articles and journals and conducted narrative analysis to elicit the potential benefits and challenges of financial inclusion in Nigerian banks. In addition, the study conducted a survey by utilising one on one interview sessions. The implementation of interview sessions was conducted by utilising questionnaires with open ended questions. These questions were structured in this manner to ensure enough information was collated from the respondents for analysis. Respondents were selected through the convenience sampling method. Subsequently, the information collated from the interview sessions were compared against the position distilled from the narrative analyses to confirm if the results validated or contradicted themselves. This study employed convenience sampling method of data collection because it is only those who are willing to participate in the survey that participated. The criteria for selection are that the respondent must have knowledge in the area of financial inclusion, prospects and challenge it has in Nigeria (Creswell, 2006). Three interviews were carried out for three different units and they include; a bank customer, an economist and a banker.

3.2. Data Collection

Qualitative data were collected using interview guide. The interview involves questions guided by identified themes in a consistent and systematic manner. The data collected was done with respondents' permission, all interviews were audio recorded and each of them lasted for about 12 minutes.

3.3. Data Analysis and Coding

The data were transcribed verbatim and analysed manually by content analysis technique. Each interviewee was assigned a number. Data analysis was guided by the recommendations by Creswell (2006), in which the themes was

created representing the various study variables was developed from extant literature with the objective of determining respondents understanding of the study constructs and how they are inter-related.

4. Literature Findings: Prospects and Challenges of Financial Inclusion in Nigerian Banking System

This section took a critical examination of literature and drew inferences on the subject matter by discussing the benefits of financial inclusion in Nigerian Banking System. This was followed a review of the obstacles impeding the successful implementation of financial inclusion in Nigerian Banking System.

4.1. Prospects of financial inclusion in Nigerian Banking System

The prospects of financial inclusion are many, however some of them would be presented below as elicited from researched literature for the purpose of the task at hand. Cruz (2017) shows that where there is the presence of the 'market' and the spirit for entrepreneurship, financial inclusion possesses huge potentials. In Nigeria, given the population of over 160m as seen in literate with a formally banked population of just 39.7% (EFInA, 2018) clearly shows that there is favourable environment for the concept of financial inclusion to thrive. There has also been an increased focus to encourage self-employment through favourable government policies. This is a fall out of the realisation that the government cannot continue to provide for the welfare of Nigerians on its own and MSME businesses are viewed as the engine that will drive economic growth in Nigeria.

In the same fashion, Ibanga (2016) has shown that the current minimum capital base requirements for banks and consolidation through mergers and acquisitions has brought massive confidence in the banking system regarding the safety of customers' funds. Ibanga (2016) argued that this is a massive boost towards the prospects for inclusive growth throughout the country as the banks are now in a position to develop bespoke financial products and services targeted at the unbanked to help improve their economic well-being. This scenario is expected to positively affect the country's banking system, increase financial inclusion and national economic growth. Similarly, the continual revising and updating of various laws and regulations aimed at effective financial deepening of the banking system is a huge plus and a massive step forward towards financial inclusion in Nigeria. Examples of such regulations include the KYC guidelines, Payment Service Banks guidelines, guidelines on Mobile Money payments etc.

An increase of financial inclusion levels would also ensure that funds that were previously outside the banking system would enter the formal banking system. This is additional funds that that can be used to stimulate the economy through deposit mobilisation, credit loans to people and sector in need of stimulation. These injected funds are a critical stimulant needed to boost the economy.

Finally, given the immense roles currently played by key stake holders including the Financial Regulator-CBN through consumer education and protection, the government through the provision of favourable legal environment for banking activities and technology and the financial institutions through the introduction of bespoke products and services, the financial sector can witness a deepening and vibrancy which can encourage even the financial excluded to become included and improve their level of financial sophistication (evidenced through the quality of their financial decisions). This chain reaction would ultimately impact the economy positively and grow the economy.

4.2. Challenges of Financial Inclusion in the Nigerian Banking Sector

Different literature has highlighted the various obstacles being encountered by the banking system in its efforts to improve financial inclusion. Some these challenges as highlighted in financial inclusion literature are listed in the table below:

Author	Challenges
Cruz, (2017)	Complex contract design; Complicated regulatory policy; Time and financial costs of opening & maintaining accounts;
Fein, (2018)	Irregular income; Long Distance to banks; Too much documentation involved to open account
Moghalu, (2012).	Low level of financial literacy. Increasing poverty
Kama & Adigun (2013)	Lack of awareness, low-income/poverty and proximity are the major barrier that prevented people from accessing services of financial institutions.
Adina & Oluayombo (2014)	Lack of infrastructure necessary to encourage financial inclusion.
Oluwaseun, (2017)	Misconception: the concept of financial inclusion in Nigeria is yet to be well understood by stakeholders Channel: poor channel to reach the unbanked by balancing traditional methodology and technology in reaching the vulnerable poor.
Robert, (2010)	Low levels of literacy (especially amongst people living in rural areas), infrastructure deficiencies (social in general and telecommunications in particular) is still very high in most parts of the country, and this makes access to financial services very cumbersome. Implementation of awareness campaigns that do not meet the needs of the targeted audience (the financially excluded) is also a critical issue

Table 1: Challenges of Financial Inclusion to the Banking System
Source: Various Authors' Compilation, (2019)

As seen above, rich literature has readily provided through empirical findings some of the challenges of financial inclusion in relation to the banking system in Nigeria. For instance, in Cruz, (2017) submission, lack of bespoke financial products and services targeted at the financially excluded still remains a huge challenge confronting the country's financial system. Cruz, (2017) also highlights the high cost of accessing financial services by the vulnerable poor as a challenge which financial services providers must eliminate. Similarly, Enhancing Financial Innovation and Access-EFInA(2018) highlighted some of the challenges of financial inclusion in the banking system to include (among others) distance to banks; irregular income, Too much documentation involved to open an account. The fact that rural dwellers may have to travel long distances given the risks of robbery and accidents just to be able to access financial services is a serious challenge to the banking system in Nigeria. Moghalu (2012); Ainaand Oluyombo (2014); Oluwaseun,(2017) and Robert (2010) have highlighted many challenges of financial inclusion in the banking system ranging from illiteracy, increasing rate of poverty and inflation, mismatched awareness campaigns and low consumer product knowledge and inadequate telecommunication infrastructure among others.

5. Discussions and Findings: Collated Data

Interviews were conducted with three members of the following target groups;

- Bank Customer,
- An Economist And
- A Banker.

The data that was generated from the interview sessions on prospects and challenges of financial inclusion in Nigerian banks. The themes and sub-themes were identified within the data which were outlined thus:

Theme	Sub-Theme
Definition	Access to cheap banking products and services by the poor
Importance	Connect the vulnerable to finance Enhance economic growth via finance
Challenges	Poor infrastructure Financial Literacy
Prospects	Huge market due to population Growing technology Government commitment through policy

Table 2: Interview Variables

5.1. Theme 1: Definition

The first theme 'definition of financial inclusion' focuses on meaning of financial inclusion. The three people interviewed shows that two out of three said that financial inclusion means access to banking products and services by the poor. This is in consonance with Serrao, Sequeira and Varambally (2013), who affirmed that financial inclusion is the timely delivery of financial services to the low-income and disadvantaged group at a cost that is affordable to them.

5.2. Theme 2: Importance of Financial Inclusion

Considering the next theme which focuses on trying to ascertain the criticality of the notion of financial inclusion, all the three people interviewed said that:

- Connect the vulnerable to finance
- Enhance economic growth via finance

This finding lays credence to the position taken by Nalini and Mariappan (2012) who affirmed that the key purpose of financial inclusion is to connect economically poor individuals with financial institutions for economic benefits as this would help to improve the opportunities to save and invest and ultimately pull them out of poverty traps in which they currently exist.

5.3. Theme 3: Challenges of Financial Inclusion

The challenge of poor infrastructure was a recurring issue under this theme from the interviewees and the review of earlier works conducted by other scholars. In addition, the issue of low financial literacy level and account opening challenges were also highlighted.

5.4. Theme 4: Prospects of Financial Inclusion

Under this theme, the benefits highlighted as the prospects of financial Inclusion include the provision of a platform to boost economic development, financial sector deepening, improved economic livelihood of Nigerians

6. Conclusion

The importance of financial inclusion and the notion that this concept can be viewed as a linchpin to drive national growth has drawn the attention of various stakeholders on a global scale. One important benefit of financial inclusion is that it can serve as a catalyst for economic empowerment through the provision of financial product and services to the economically poor and the unbanked in Nigeria.

This study was set to examine the prospects and challenges of financial inclusion in the Nigerian banking system. While the prospects are enormous, the challenges are equally many as identified in established literature. The study concludes that financial inclusion is in fact a promising model but, the challenges that come with it must be adequately confronted by relevant authorities, including stakeholders to ensure a financially inclusive Nigeria that would drive economic growth.

7. Recommendations

Following the numerous revelations as obtained through literature on the challenges of financial inclusion in the Nigerian Banking system, the following recommendations have been put forward.

- Given the potential benefits that can accrue from the implementation of Financial Inclusion strategies (as validated by previous works and interviewed respondents) it is crucial that these benefits are clearly articulated and presented to various stakeholders to ensure their buy-in is obtained. This is important because improving financial literacy level is a stakeholder effort which requires input from all stakeholders
- Having articulated some of the impediments that can negatively affect the successful implementation of financial inclusion in Nigeria, they should be taken into consideration when developing a Financial implementation strategy for Nigeria. This will ensure the strategy has a higher likelihood of successful outcome;
- Given the interconnected nature of the financial ecosystem and far reaching impact financial inclusion can have on the whole economy, implementation strategies that would be developed must be geared more towards instituting an approach that would ensure policy formulation and implementation by government and regulators complement each other and do not create chaos within the system. In addition, the alignment of these roles and responsibilities with the various stakeholders must be done in such a way that would ensure the financial inclusion level is improved in a sustainable and efficient manner.

8. Areas for Further Research

Whilst this research tries to leverage on previous work done in this area and some interviews conducted prior to presenting its conclusions and recommendations, it is important to state that future research on this subject should conduct more extensive data analysis (through interviews and other methods) to ensure a more robust recommendation is achieved

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