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Accelerating Financial Inclusion for Economic Development and Increased Industry Profitability

THE PURSUIT OF MAKING FORMAL financial services accessible at an affordable cost to “hard-to-reach” individuals and businesses—a process called financial inclusion—has received significant global attention in recent years, given its critical importance in systemically driving economic development.

According to a World Bank Report, there are about 1.7 billion unbanked adults in the world. These people represent 31 percent of all adults globally who lack access to financial services; a larger percentage have basic accounts but do not have access to diversified investments, saving options, low-cost payment systems, credit options and so on.

Financial exclusion is a growing concern that has resulted in poor financial wellness and security for many low-income households and small businesses in developing countries and growing income inequalities in developed countries. However, the nature of the challenges varies significantly among developed and developing countries and even between different population groups within the same country and region.

Financial inclusion in Nigeria

According to EFInA (Enhancing Financial Innovation and Access), the foremost financial-sector development organization promoting inclusive finance in Nigeria, 36.8 percent of the adult population (about

36.7 million adults) were financially excluded and lacked access to financial services in Nigeria as of 2018. Within that period, about 78.5 percent (28.8 million) of the financially excluded adult population lived in rural areas of the country and lacked formal banking services.

The high percentage of financially excluded individuals in Nigeria has continually led to increases in the volume of money outside the financial system, thus elevating poverty levels for individuals at the base of the pyramid. Hence, in Nigeria and elsewhere, the promotion of financial inclusion has assumed greater levels of importance in recent times due to its significance as a major driver of economic development.

The main challenges for financial inclusion

The following factors limit financial inclusion:

- **Low literacy levels:** Low levels of financial literacy and overall unawareness persist within the target markets for financial inclusion. The majority of financially excluded individuals are unable to read and write and lack knowledge of the services and benefits derivable from accessing financial services.
- **Poverty and lower earnings:** A large percentage of Nigerians live below the international poverty line. The low income-generation capacities and pervasive

poverty levels of most Nigerians—especially in rural and semi-urban areas, with most living on daily wages that result in little or no savings—have played critical roles in eroding the eligibility for financial inclusion of the bulk of the financially excluded population.

- **Valid identification documents:** One of the requirements for accessing financial services is the provision of valid identification documents. The absence of proper identification documents typically hinders receipt of large payment flows as well as the ability to access diverse financial products, such as loans.
- **Insecurity:** The insecurity that continues to challenge the country hinders the expansion of financial institutions’ footprints to specific areas and contributes to the closures of existing banks, thus limiting access to the financial system for those living in areas with elevated insecurity challenges.
- **Returns on investments:** Serving the major segments of the financially excluded is “unattractive economically” to private-sector players given the resource and investment requirements for serving the base-of-the-pyramid segment.

Achieving financial inclusion and financial security is not an end, but a means to an end. It is broadly recognized as critical to fostering economic development, reducing poverty and achieving inclusive economic

growth. It also has positive effects on consumption, employment status and income, and on some aspects of physical and mental health.

For financial institutions, it creates opportunities to access large deposits, create retail risk assets and grow profitability while increasing wealth generation for individuals, households and businesses.

The role of financial inclusion in economic development

Financial inclusion through the delivery of formal financial products and services to all segments of a population irrespective of their economic status is currently on the front burner across geographical boundaries and between genders. It has become a major phenomenon for policymakers around the world when planning and developing strong policies to achieve sustainable economic growth and development. It has been generally argued that financial inclusion is a driving force towards economic development.

The financial-services sector, through its products and services offerings, not only improves the accessibility of capital formation but also encourages the innovation, efficiency and investment that leads to output growth.

In Nigeria, the banking-industry regulator, the Central Bank of Nigeria (CBN), is deliberately focused on driving financial inclusion, given that access to financial services is a strong lever for overall economic development as it facilitates economic growth and reduction in income inequalities. Inclusive financial systems allow people at the base of the pyramid to smoothen their consumption and insure themselves against the many economic vulnerabilities they face, from illnesses and accidents to thefts and unemployment. Financial inclusion enables these people to save and borrow, providing a platform for them to build their assets, invest in education and entrepreneurial ventures and thus improve their standards of living. The most disadvantaged groups—such as women, youth and residents of rural communities—are the most likely beneficiaries of the financial-inclusion thrust in any economy.

Benefits of financial inclusion

Financially inclusive economies deliver significant benefits to various stakeholders in the economy by:

- Reducing poverty levels;
- Increasing income, which leads to fewer income inequalities;
- Promoting economic growth—mobilizing savings that increase the interest earned by customers from financial institutions while also encouraging the deployment of an enlarged savings base to promote economic growth through productive investment by financial institutions;
- Educating the rural population, thereby enhancing earnings potential;
- Providing support systems to the rural economy.

FirstBank's approach to financial inclusion

Financial inclusion supports overall economic growth and the achievement of broader development goals. It is reported that digital finance (the access and usage of formal financial services by the excluded population) alone could benefit billions of people by spurring inclusive growth that would add \$3.7 trillion to the GDP (gross domestic product) of emerging economies within a decade.

FirstBank is at the vanguard of the financial-inclusion drive and has developed a robust and specific value proposition for the financially excluded, particularly for the underserved and underserved base-of-the-pyramid, mass-market segments; small and medium-sized enterprises (SMEs) and women. This unique value proposition for the financially excluded is delivered through the bank's ubiquitous agent banking network: Firstmonie.

The Firstmonie service provides financial and banking solutions to rural and semi-urban locations across Nigeria. These solutions include account openings, cash deposits, cash withdrawals, airtime purchases, bill payments, government-revenue collections, conditional cash transfers and disbursement services, mobile-money services (wallet creations, deposits, withdrawals), bank verification number (BVN) enrollments and other non-bank ecosystem

value-added support services. Through the Firstmonie proposition, the bank is committed to providing convenient and low-cost services that engender and provide ease of access to banking and financial-services products, thereby saving time and travel costs for users of the network. Worthy of note in this regard is the bank's partnership with the National Union of Road Transport Workers (NURTW) in Nigeria to leverage the traffic and commercial activities at various motor parks across the country and ease access to financial services.

Firstmonie's performance

FirstBank's Firstmonie agent network operates in 772 of the 774 local government areas in Nigeria. The bank's agent banking network is the largest bank-led network in Nigeria—and, indeed, sub-Saharan Africa—with more than 100,000 agents (including more than 22,000 female agents, enabling the bank to drive gender-inclusive growth within rural communities). The Firstmonie network processed more than NGN12 trillion (US\$30 billion) in more than 600 million transactions between 2018 and April 2021.

The Firstmonie initiative has been a very formidable vehicle for job creation and economic development in several communities across the country, as more than 100,000 direct jobs and 300,000 indirect jobs have been created, with an agent earning an average monthly commission income of NGN85,000. More than 1.2 million individuals have been positively impacted economically through the jobs created via FirstBank's Firstmonie agent banking proposition. A significant percentage of Firstmonie's agents are in rural areas, contributing significantly to the development of Nigeria's rural economy. Overall, FirstBank is supporting the social-economic development of Nigeria in a profitable way.

As part of FirstBank's commitment to improving financial inclusion, the bank also provides products tailored to cater to the financial needs of women, who are typically underserved. FirstBank's FirstGem offerings are bespoke retail products and services for the contemporary woman, with

benefits such as access to business-development advisory services and financing and a vibrant community of female entrepreneurs.

Accelerating financial inclusion

The drive for financial inclusion is paramount as it is linked to the development of any economy. A high rate of financial-inclusion attainment leads to improved banking-sector performance, which will translate into the economy's overall gross domestic product growth. Surmounting financial-inclusion hurdles requires well-coordinated actions from regulators, public-policy-making institutions and banks (including other private-sector providers) to address the structural issues impeding financial-services growth in the identified segments. Specific strategies and actions that public and private-sector stakeholders should adopt to bolster economic development and increase the overall social well-being of the citizenry through financial inclusion will entail:

- **Focused financial-literacy programs:** Low levels of financial literacy within the rural populace currently limit the drive for improved access to financial services in Nigeria. To stimulate economic growth and enhance economic participation, it is imperative to institutionalize financial-literacy programs targeted at the underserved and unserved segments to foster financial inclusion through technology-based financial services.
- **Fit-for-purpose and innovative offerings to accelerate account adoption:** Although regulators in certain markets have required banks to offer basic accounts and simplify onerous documentation requirements, such measures do not always deliver the desired results. Banks can offer compelling value propositions by structuring highly relevant and simplified financial solutions that meet the specific needs of the base-of-the-pyramid population at an affordable cost. Doing this will entail the design and implementation of frameworks focused on gathering sufficient data to comprehend the starting points of usage of financial services and the consumption patterns of the financially excluded populace. This will aid private-sector participants in adapting the design and delivery



FirstBank Group Headquarters in Lagos, Nigeria

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- of customized financial products and services to appeal to individuals with low financial-literacy levels.
- **Focus on core pillars of development:** A deliberate focus on increasing job creation, productivity and income levels in rural areas is needed. Given that agriculture is the predominant form of activity in these settings, the most pragmatic instruments for achieving these objectives should involve designing financial and advisory products that are streamlined to capture the agricultural value chain within the rural and semi-urban populations of any economy.
- **Innovative channels to reach the unbanked and underbanked:** The rise of the internet and increased mobile-phone usage have provided avenues for people in remote areas to receive or make payments for basic services. Financial institutions should focus more on leveraging digital channels to provide greater

convenience for the underbanked as well as promoting seamless transaction capabilities in remote locations.

Digital finance presents a potentially transformational opportunity to advance financial inclusion, and digital financial solutions could play a significant part in closing the gaps in financial inclusion. They could address about a third of the unmet demand for payment services and a quarter of the unmet credit needs in the underserved and unserved segments.

Overall, adopting and implementing solutions targeted at achieving a financially inclusive economy will lead to better living standards for individuals, increase earnings for individuals and SMEs, provide new revenue streams and profitability for the banking industry, and ultimately become a fillip for economic development in any economy. «