# Open APIs: An inclusive model for advancing financial inclusion in Nigeria

An Open Banking Nigeria Perspective

Open Banking

# Introduction

Financial inclusion has become more than a catchphrase within the financial services space in recent times, primarily due to discussions on the subject from several stakeholders, including development organisations, governments, banks, etc. Investopedia defines financial inclusion as “efforts to make financial products and services accessible and affordable to all individuals and businesses, regardless of their personal net worth or company size.” Essentially, it is aimed at eliminating the barriers that exclude individuals and/or businesses, especially micro-enterprises from the financial mainstream. On financial inclusion, the World Bank notes that when people are on-boarded into the financial system, they are more likely to use other financial services such as savings, credit, and insurance, invest in education or health, start and expand businesses – all of which can improve the overall quality of life. From an economy-wide perspective, financial inclusion has the potential to unlock economic growth and reduce the cash economy.

# Financial Inclusion in Nigeria

Efina's *Access to financial services in Nigeria survey 2018* revealed how Nigeria stacks up in terms of financial inclusion. Only about 39.7 percent of the 99.6 million adults in Nigeria are formally banked, showing a 1.4 percent growth from the recorded percentage of banked adults in 2016. The study further bared the following;

**01**

**36%**

of Nigeria's adult population are financially excluded

**02**

**Affordability and institutional exclusion**

are the biggest challenges to having a bank account in Nigeria

**03**

**97%**

of the financially excluded lie within the bottom of the pyramid **(Annual earnings < N800,000)**

**04**

**Financial access**

is skewed towards male adults. Women constitute about **55%** of the unbanked adults

**05**

**The highest number**

of financially excluded adults are within the **18 to 25 age category (34 percent)**

**06**

Over

**78%**

of the financially excluded population are in the rural areas; concentrated in the northern part of Nigeria

**07**

**23.5%**

of financially excluded population are small scale farmers

**08**

**The median income**

of the financially excluded is N15,000

**09**

**35.2%**

of the financially excluded have mobile phones

Although the financial exclusion rate in Nigeria has declined from about 52.5 percent in 2008 to 36.8 percent in 2018, there are opportunities to not only deepen but expand financial inclusion.

A characteristic feature of the discussions on the table by stakeholders is the appreciation of the enormous potential that banking the unbanked holds for the financial services industry and the Nigerian economy. However, the question remains – **why haven't stakeholders especially banks successfully tapped into the countless opportunities that aggressively driving financial inclusion in Nigeria holds?**

The answer to this question lies in the circumstances and challenges of serving the unbanked population. In this article, we explore adoption of open API standards as an inclusive model to expand and deepen financial inclusion in Nigeria.

## Challenges to Financial Inclusion in Nigeria

The journey to addressing financial inclusion in Nigeria has not been a walk in the park. The apparent challenges that must be tackled to on-board the financially excluded into the financial services mainstream reinforce this statement. These limitations cut across; institutional exclusion, affordability, dearth of tailored products/services for the financially excluded, limited financial literacy, etc. The configuration of the traditional banking system in Nigeria does not position banks to accommodate the unbanked population who are mostly within the lower levels of the economic pyramid. The realities of this cluster – illiteracy, lack of formal identification documents, lack of trackable income sources, etc. - make it obviously challenging to on-board them into the traditional financial system. As a result, most of them are unable to not only appreciate the need for banking services, but the possibility of meeting the requirements of banks is unlikely. The traditional model of offering financial services encourages institutional exclusion as most individuals within the unbanked population are either unable to afford financial services/products or meet the formal requirements. In terms of product/service offerings, traditional players provide mostly generic financial products/services that do not meet the specific needs of the financially excluded population. On the side of the excluded population, limited awareness and knowledge of financial services also pose a limitation to the drive to improve financial inclusion in Nigeria.

Fintechs in Nigeria have contributed largely to improving financial inclusion, however, they still grapple with challenges such as lack of a regulatory framework that supports their speed of innovation and encourages flexibility, difficulties in establishing strategic partnerships with other stakeholders in the financial services space (this affects explicitly early-stage Fintechs) and lack of an established database that provides information for data-driven analysis.

These challenges to financial inclusion in Nigeria are categorised into demand-side and supply-side realities. Challenges touching on low literacy levels, location of the unbanked mostly in rural areas, and high dependency on informal sources of finance define the demand side realities. On the supply side, issues such as mismatch of cost to serve to derived value from serving the unbanked, lack of proof of identity, lack of appropriate products/services, distance to reach the unbanked are prevalent. Due to these challenges, many conventional banks have only paid lip-service to efforts at improving financial inclusion in Nigeria without showing any clearly articulated roadmap to achieving this.

Consequently, after years of intervention efforts from the government, financial services stakeholders, development partners, etc. key questions remain
**What should industry stakeholders do collectively to improve financial inclusion?**

**How can stakeholders achieve cohesion and coordination of efforts for a sustainable impact on financial inclusion in Nigeria?**

## How will Open APIs foster Financial Inclusion in Nigeria?

Adopting Open API standards holds the promise to deepen financial inclusion in Nigeria because it encapsulates the systems, structure, and stakeholders that can address both the demand and supply side realities of financial inclusion in Nigeria.

Unlike the fragmented approach to improving financial inclusion characterised by one-to-one alliances amongst organisations, the open APIs strategy takes an ecosystem approach to improving financial inclusion, bringing all key stakeholders - from financial literacy advocates to financial product/service design experts – and resources into a collaborative platform.

The open APIs model will provide the much-needed foundations– regulatory framework, database, strategic partnerships, etc. – for third parties like Fintechs to build affordable solutions, easily integrating with other ecosystem players like Telcos and Banks. Hence, it removes the physical barriers between the demand and supply side realities of financial inclusion, deploying Omni-channel solutions that align to unique customer journeys.

This makes for efficiency and speed to delivery as all previously existing borders in executing financial inclusion strategies are diminished. The open APIs system also embodies a low-cost strategy for addressing financial exclusion as it provides cost-efficient collaborative platforms for all players in the financial services ecosystem. Within the open ecosystem, supply-side parties are enabled to offer solutions to replace traditional face-to-face services.

Let us look at some practical ways adopting an open API approach will accelerate financial inclusion in Nigeria.

In terms of lending, most individuals within the financially excluded category are unable to meet up with formal requirements from banks needed for risk assessment as the banks do not have access to traditional data to aid the risk profiling process. However, adopting an open API approach will enable the use of non-traditional information – social media profiles, telephone usage data, psychometric tests - as proxy data to profile financially excluded individuals. That is, these standardized open APIs will enable access to non-banking related existing customer data footprints – such as mobile phone usage data – to profile and on-board excluded individuals into the financial mainstream.

Access to data from non-bank related services with customer consent also enables players in the ecosystem, especially banks and Fintechs, to understand the attributes of new customer segments – buying behaviour, price points, etc. using advanced technology such as machine learning.

In terms of account opening, the open model provides opportunities for unbanked individuals in Nigeria to open accounts, fulfilling the minimum KYC criteria, relying on 3rd party data such as mobile phone usage data from Telcos. Hence, excluded individuals can open accounts on their mobile phones, pass e-KYC requirements, and thus have access to prepaid debit cards. Furthermore, it will not merely improve the number of people on-boarded into the financial mainstream but will also drive activity rates on accounts. This is because the value proposition for an open APIs-led model embodies innovation in product design to meet the unique preferences of customers despite their economic and literacy levels.

By providing a structure for improving financial inclusion, open APIs will also drive the CBN’s efforts towards establishing a cashless economy. The excluded population relies completely on cash for transactions. However, including them into the financial mainstream via an open APIs enabled approach will encourage cash-less transactions as there will be tailored financial products that meet their needs.

## Closing thoughts

The open APIs approach to addressing financial inclusion will require committed investments in the foundational work to establish the necessary infrastructure. There is no one-size-fits-all pathway to addressing financial inclusion; however, the open model promises a coordinated and inclusive approach to addressing financial inclusion in Nigeria, enabling previously unbanked population to thrive and integrate into the formal economy. As a result, the efforts of different stakeholders will be coherent and have a multiplier effect on financial inclusion in Nigeria.

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Ene is passionate about innovation in financial technology and has been working in the Payment/Fintech industry for over 10 years. She started out in Technology where she recorded laudable success in deploying several solutions across Banks in Africa. She has since transitioned to Business Development and is tasked with building a payment platform to support new trends and changes in user behavior. She is keen on shaping the future of the financial services ecosystem where banks, fintechs and other third parties can win together.


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Yvonne's vision for a more progressive economy, one that thrives on innovation and inclusion is what drives her work at Open Technology Foundation. With a background and professional experience in Product Management, Financial Inclusion Advocacy and Strategic Planning, she manages the strategic initiatives of Open Banking Nigeria.

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## About Open Banking Nigeria

Open Banking Nigeria, is a legal entity propelling the Open Banking journey in Nigeria. Set up in June 2017 as a non-profit organization, the foundation comprises of industry leaders who recognize the importance of Open Banking in driving the next level of growth in Nigeria's financial sector. The activities of the foundation are targeted at unlocking growth potentials through the improved collaboration of players within the financial space. A set of standards are being defined as a guidance framework for API integration, data accessibility, and security. An overarching objective of the open banking team is boosting the country's economy through the reduction of barriers to innovation and consumer's access to essential financial products and services.

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