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BANKING THE UNBANKED AT THE BOTTOM OF THE ECONOMIC PYRAMID IN NIGERIA: CHALLENGES AND OPPORTUNITIES FOR PROFITABLE GROWTH

FERDINAND ABUL IKYA

The Chartered Institute of Bankers of Nigeria, Abuja, Nigeria

Tel: **+234-906-127-1306**

Email: **abulikya@yahoo.com**

Abstract

The implementation of the recent government Treasury Single Account (TSA) policy by the federal government of Nigeria and its agencies has brought to the forefront the vulnerabilities of our banks' over dependence on public sector funds and large enterprises for business. However, while so much attention has been given by the media and professional discussants to the short-term impact of the policy on banks' liquidity, stability and profitability, nothing has been mentioned of the window of opportunities it has presented. The primary objective of this paper is thus to highlight and discuss the huge market opportunity at the bottom of our economic pyramid begging to be harnessed by financial institutions that can more than fill the void created by the policy. The paper argues that the unexplored and uncontested massive goldmine at our economic base offers a market space for cheap and stable source of funds for profitable growth for financial institutions that are genuinely seeking economic profits. It however notes that the market segment is exclusively for financial organizations that are patient and innovative; that can create and capture new demands to create a leap in value for themselves as well as lift millions of households out of social exclusion, misery and poverty. For a better appreciation of its context, the paper provides an overview of the socio-economic lives of households at the foot of our economic ladder including their financial practices, preferences and behaviours such as; informal savings mechanisms, own-wealth creation, insurance against economic shocks and payments/remittances. It also highlights and reviews the challenges and risks of banking the segment and concludes with reference to existing literature that with appropriate customer value propositions (CVP), constellations and pricing strategy; financial institutions can profitably serve the segment at scale and take millions out of social exclusion and poverty. The paper then concludes with selected policy recommendations for practitioners and policy makers that are aimed at tackling the deeply rooted socio-economic structural and institutional barriers that exacerbate financial exclusion, inequality, misery and poverty in Nigeria.

Keywords: **Financial Inclusion; Inclusive Finance; Financial Exclusion; Unbanked; Bottom of the Pyramid**

INTRODUCTION

Nigeria as an emerging market economy is home to an estimated 191 million emerging consumers [1]. It is thus the most populous country in Africa. Like in other developing economies, it is a youthful country with 72% of its people under 35 years [2]. It hosts the largest economy on the continent with a Gross Domestic Product (GDP) of USD$376 billion. It is however a paradox that poverty remains pervasive in Nigeria with about 49.1% of its population living below the poverty line; on less than

US$1.90 per day at 2011purchasing power parity (PPP) exchange rate [3]. As it is common with most developing economies, most of its poor people live in rural villages, urban slums or shanties and have no formal education and legal title to their houses and dwelling places [4].

In Nigeria's rural areas, there are mostly subsistent farmers who cultivate small patches of family farmlands using traditional tools such as hoes and cutlasses. A few engage in non-agricultural occupations such as trading, provision of transport services and small scale industries (carpentry, house-building, tailoring). The rural villages are long distances from urban centers without good access roads or public utilities such as water, electricity and internet services. There are also no formal banking facilities for savings, credits and insurance. It is thus not out of place that only about 27.60% of the 63.1million adult population living in the rural villages of Nigeria have an account with a bank against urban centers and national averages of 60.5% and 39.7% respectively [5]. The limited access to financial services is therefore a major barrier to large scale mechanized farming. In this way, financial exclusion limits the ability of the rural populace to increase their wealth [6]. Ironically however, agriculture with its allied agribusinesses, fuel the livelihoods of over 70% and contributes about 40% to the GDP of African countries. It is therefore, comparatively not out of place that Burgess and Pande found in a study of rural banking in India that branch expansion into rural unbanked locations of India significantly reduced rural poverty in such areas through increased savings mobilization and credit provision. In the overcrowded urban shanties and slums, the entrepreneurial low-income group runs micro and small enterprises as transporters, artisans and petty traders etc. [7]. They however hold no legal titles to their dwellings and business places and possess no legal means of proof of income, identity and address [8]. Even though these enterprises are vital contributors to job and value creation [9], they lack access to credit facilities from regulated financial institutions.

It is however interesting to note that in the developing world, households serve as the primary units of both production and consumption consequently according to Conroy, the lack of access to formal finance therefore inhibits their roles as production and consumption units [10]. Without access to financial services, their efficiency in production and equity in consumption is greatly constrained. In contrast however, households in developed economies in similar situations are only disadvantaged in their primary role as units' of consumption given that they play a limited role in production.

In the context of this article, the unbanked are thus those social groups and individuals at the periphery of our current banking business that are excluded from the most basic mainstream financial services. In the case of Nigeria, about 36.8% of the country's adult populations of 99.6 million have no account with any financial institution and only 1.30% has a loan from a bank [5]. In developing countries, these are mostly rural dwellers, the poor, women, less educated adults, young and older adults [11]. In Nigeria they are classified as low and middle income groups earning between $500.00 and $5,000.00 without a bank account and as a group, they make up to 80% of the total households in Nigeria [12]. Thus as a group, they collectively represent the bottom of the pyramid market segment. In their quantum numbers, they offer a massive market opportunity to businesses that are willing to serve them. In this way, they can deliver high levels of profitability for those organizations that have recognized their market potentials as they stand to make healthy economic profits [13]. For example, global corporations such as Unilever, Nirma (India) Limited, Procter and Gamble (P&G), PZ Cussons (PZ), CEMEX S.A.B.C.V. (CEMEX), Nestle, etc. have long recognized the potentials of this market segment and have adopted 'bottom of the pyramid' strategy to serve it at scale [4,14]. This explains why their foot prints are all over our rural villages, urban shanties and slums where our banks have none. The big question now is: How can financial service providers in Nigeria profitably serve this massive market segment to achieve stable profitable growth and lift millions out of social exclusion, misery and poverty?

As part of the inclusive finance discourse, the primary purpose of this paper is therefore to highlight and discuss the massive market opportunity of banking the unbanked at the bottom of our economic pyramid. To appreciate the market opportunities of banking the sector in Nigeria, the paper describes the socio-economic environment and lives of those at the bottom of the pyramid; their financial practices, behaviours and preferences and the key constraints they face in accessing markets and financial services. It then provides an overview of Nigeria's current banking business focus and is followed by an outline of the likely challenges and risks involved in serving the segment and the massive market opportunities it offers. The paper then concludes with key policy recommendations for policy makers. It is hoped that the paper will add to the body of literature on inclusive finance agenda especially as it relates to Nigeria.

An Overview of Nigerian Banks' Current Business Focus

There is no doubt that the Nigerian financial system has made rapid strides in the last two decades following extensive reforms of the system by the government to reposition it to play a greater role in the economic development of the country. For example, the enhanced banks' capitalization policy of N25 billion ($195million) introduced by the Central Bank of Nigeria (CBN) in 2004 reduced the number of banks from 89 to 24 through mergers and acquisitions, stock exchange listings and liquidation of terminally insolvent ones. On the other hand, the policy brought about bigger banks with an enhanced ability to finance big ticket transactions and who are more aggressive in branch expansion within and outside the country. It has also brought about greater investment in innovative know-how and technology to deliver efficient clients services. For instance, the total number of bank branches increased from 3,492 in 2004 to 5,450 at the end of 2017 while that of ATMs grew from 193 to 17,449 within the same period [15,16]. However, as reported by Ananth and Oncu in their study of financial inclusion agenda in India, the listing of banks' shares on the stock exchange might have tacitly discouraged them from investing in uncertain markets with high initial costs but long-term benefits due to the short-term focus of the stock market [17]. With this focus, investments in new markets such as the unbanked segment are no longer attractive as the initial costs of such investments are high while their benefits are long-term. For example while the Central Bank of Nigeria (CBN) retains the authority to sanction new branches proposed by the banks, the choice of locations is based on individual bank's assessment of its needs, business potentials and financial viability of the proposed location. Thus, with the liberalization policy, short-term profitability has become the main determinant of branch expansion and explains the overconcentration of banking facilities in cities and urban centers. That is why notwithstanding the strides that the financial system has made in recent decades, many individuals, social groups and firms remain excluded from formal financial services [11].

In Nigeria, most banks have perverse incentive to look mostly to public sector organizations, large corporations and wealthier individuals for business and deposits with no regard to the low-income and small savers [18]. This strategic option in pursuit of margins over volume that favors the socially powerful in society has left many social groups and individuals out of mainstream financial services especially rural dwellers, the poor, women, less educated adults, young and older adults [5] who make up to 80% of households in Nigeria. Thus as noted by Soludo, the banks' apathy towards this segment is a key reason for the huge currency outside of the banking (COB) system in Nigeria [18]. In line with this school of thought, the recent government Treasury Single Account (TSA) policy [19] and Okerekeoti and Okoye for reviews of the policy should thus be seen as offering a window for financial service providers in Nigeria to look beyond public sector and large enterprises for business [20]. This should afford them the opportunity to see the massive 'iceberg that has only its tip in plain view' in the low-income mass market segment. As is the case with CEMEX in Mexico, Unilever and Nirma in India and other developing countries [14], it offers financial institutions a massive market opportunity to generate cheap stable funds for profitable growth and the platform to share their prosperity and lift millions of households out of social exclusion, misery and poverty.

Even the marketing activities and product offerings of financial institutions have inadvertently favoured the economically powerful in society. In this way some individuals and social groups have been overlooked or excluded because of their status or attached product conditions [21]. For example, the demand for collaterals and other documentation requirements by financial institutions have made it difficult for the economically and socially weak in society to even open an account; let alone get credit from mainstream financial service providers. Moreover, the increased use of market segmentation and targeting in recent years has made financial institutions to focus their activities on perceived profitable individuals and groups [22] at the expense of the low-income segment.

In their study of the impact of information technology on financial performance of financial institutions, Farouk and Dandago observed that Nigerian banks have heavily invested in hi-tech applications in recent years as a way of serving their customers better [23]. However, the use of hi-tech applications by banks in serving clients has its negative side effects on some market segments. Hogarth and O'Donnell and Ezeoha have thus argued that even the increasing use of technology by financial institutions is adding to financial exclusion as some individuals and social groups might not have access to such technological channels [24,25]. It thus means that even some legitimate activities of financial institutions might be having unintended consequences that are less than ideal to the wider society [26].

The Challenges of Banks' Business Models

While massive market opportunities await banks willing to serve the low-income segment at the bottom of the pyramid, the rewards can only flow to financial institutions that are persistent, patient and possess the right know-how and technology that is wrapped in appropriate business models. The mass market segment is not for those looking for quick profits. It is for those who have the empathy and think and act out of the box and are genuinely seeking economic profits. Banking the unbanked however poses new challenges and risks on a scale that might not have been contemplated at the outset. Thus as noted by Prahalad and Hart [5], the major challenge of doing business with the low-income group is about "how to combine low cost, good quality, sustainability and profitability". This challenge is normally encountered when moving from selling high value goods and services to low value transactions and was identified by Johnson et all in their review of Dow Corning; a USA Silicon Valley company [27]. In that study, they observed that the greatest challenge of Dow Corning's transformation from delivering high priced customer value proposition (CVP) to one of lowly priced CVP was that both the business model and the culture were built on high-priced CVP. In another study of Tata Motors they also found similar challenges. In this case, the auto maker had decided to venture into the production of a low cost car - Nano to serve the massive low-end market in India. In the case of Nigerian banks, they are mainly focused on banking public sector organisations, large enterprises, wealthier individuals and the middle-class. This strategic option emphasizes margins over volume in its business dealings and interactions. Comparatively however, transactions in the bottom of the economic pyramid market are massive and occur repeatedly but in small amounts [28]. Thus business organizations with high-priced CVP business models that put margins ahead of volume will miss the opportunity of the mass market as such business structures are at variance with the socio-economic lives and needs of a low-income market. Banking the unbanked however poses new challenges and risks on a scale that might not have been contemplated at the outset. Thus as noted by Prahalad and Hart [5], the major challenge of doing business with the low-income group is about "how to combine low cost, good quality, sustainability and profitability". This challenge is normally encountered when moving from selling high value goods and services to low value transactions and was identified by Johnson et all in their review of Dow Corning; a USA Silicon Valley company [27]. In that study, they observed that the greatest challenge of Dow Corning's transformation from delivering high priced customer value proposition (CVP) to one of lowly priced CVP was that both the business model and the culture were built on high-priced CVP. In another study of Tata Motors they also found similar challenges. In this case, the auto maker had decided to venture into the production of a low cost car - Nano to serve the massive low-end market in India. In the case of Nigerian banks, they are mainly focused on banking public sector organizations, large enterprises, wealthier individuals and the middle-class. This strategic option emphasises margins over volume in its business dealings and interactions. Comparatively however, transactions in the bottom of the economic pyramid market are massive and occur repeatedly but in small amounts [28]. Thus business organizations with high-priced CVP business models that put margins ahead of volume will miss the opportunity of the mass market as such business structures are at variance with the socio-economic lives and needs of a low-income market.

Again, the highly experienced bank employees have no training and experience in small scale business and smallholder agricultural value chain finance (VCF) and local nuances to professionally deliver helpful services to the low-income group and rural farmers. Also the current cost structure in the business models of banks with their complex documentation processes are out of tune with a market in which there is high levels of illiteracy, low internet penetration, etc. among its clients. The need for foot-on-the-street as distribution channels to serve the market in face-to-face interactions [13] may also prove a daunting task for financial institutions. On the other hand, a distribution channel for high priced CVP for wealthier individuals and the middle-class is not likely to succeed at the low-end of the market. Hart and Sharma's account of the failure of 'Nike's World Shoe' and its eventual withdrawal is a classic example of the dangers of transporting a distribution channel for a high end market to a low-end one. According to their study, 'World Shoe' was designed as a low cost version of the highly successful upscale Air Maxx for the massive low-income market in China and other developing countries [14]. However, the distribution channels and other market mix for the upscale products were employed in marketing the 'World Shoe'. In the same way, the major distribution channels of Nigerian banks are their upscale expensive high street shops. These distribution outlets located in highbrow areas of cities and urban centres are tastefully designed and furnished with very gorgeous ambience to go with. Regrettably however, these expensive channels with their other market mix might not be ideal for the low-end market. As was the case with Nike's World Shoe where high-priced CVPs were display side by side with low-end products in upscale outlets, these branches if transported to the mass market segment might be perceived with the same nostalgia as outlets for the wealthier persons in society.

Financial Infrastructural Gaps and Information Asymmetries

Apart from firm-level constraints, there are other challenges facing financial institutions as the low-income market is located in rural villages, urban shanties and slums across Nigeria. These rural villages are long distances apart, have no public utilities, no access roads to reach, poor infrastructural connectivity such as telecommunications. This has thus remained a major challenge of the financial inclusion agenda in the developing world including Nigeria [11].

Credit bureaus and registries are a vital part of the financial intermediation architecture; they act to reduce information asymmetries between customers and financial institutions by providing information regarding the products of the later and solvency of the former. This reduces the risks of doing business with the segment as their availability is essential in minimizing information asymmetry [29]. Thus the limited availability of moveable collateral registries and credit bureau services in Nigeria has given rise to poor customer information system which has remained a barrier in lending to the low-income group. This may thus explain the boom in informal credit where there is no evidence of information asymmetry as information flows freely between borrowers and lenders [30]. This is consistent with Triki and Gajigo's findings that, SMEs in countries with both functional credit bureaus and registries are less constrained in accessing credits from financial institutions [31]. In line with this finding, the limited or near absence of credit bureaus and moveable credit registries in Nigeria poses a real challenge for financial institutions in the bottom of the pyramid market. Again the high illiteracy levels in the unbanked segment serves to accentuate information asymmetry between customers and their banks regarding financial products and are even higher in cases of new and less experienced customers and in transactions where sophisticated products are involved [32].

In any business relationship, a strong legal framework to handle disputes that may arise from time to time between parties in a business transaction is a vital requirement. In the case of financial services, a strong insolvency regime with strong credit rights can greatly improve access to finance [29]. However, in Nigeria the absence of foreclosure legislation, outdated insolvency, bankruptcy and land use laws coupled with a sloppy justice system and ineffective consumer protection regimes remain a major challenge to financial inclusion agenda in the country. This scenario has thus made lenders to spend huge scarce resources in making sure their loans and other credit facilities are repaid and have also help in driving up interest rates on credits. It is therefore not out of place to say that it has also contributed to or exacerbated the demand for collaterals by financial institutions in Nigeria.

Are there Any Market Promise and Opportunities?

In their study of global banking, Chironga, et al. estimated global banking revenues to grow to about 367 billion USD in the next decade with 60% expected to come from emerging market economies [13]. According to their assessment, the exceptional performance in the developing economies is due to expected increased penetration of large numbers of un-served and underserved MSMEs' segment in those markets. They also expect Sub-Sahara Africa (SSA) to more than double its banking revenues from 5 billion USD to 12 billion USD with an annual growth of 20%. These estimates are consistent with that by Prahalad and Hart [4] who stated that; "the real source of market promise is not the wealthy few in developing world, or even the emerging middle-income consumers: it is the billions of aspiring poor who are joining the market economy for the first time".

In line with the above reports, Nigeria with the largest economy in SSA and an emerging 191 million consumers who are mostly on the fringe of banking services should naturally be the epicentre of activities for the banking revenue growth. It is however amazing that this massive market opportunity still remains invisible to financial institutions in Nigeria years after the reports was published. The signposts of the huge market potentials are visible everywhere; a massive booming informal sector in an economy that is the largest in Africa, a large smallholder agricultural sector that employs and feeds the nation, a massive and growing population without a banking account and insurance and large amount of cash outside of the banking (COB) system as well as a high rural-to-urban internal migration. In line with Kim and Mauborgne's Blue Ocean Strategy, this is clearly an uncontested market segment that should offer the opportunity to create a blue ocean market space where competition is irrelevant and players are able to invent and capture new demands to create a leap in value for businesses and customers a like [33]. The next subsections will thus outline some selected financial practices, behaviours and preferences at the bottom of the pyramid that could be turned into appropriate CVPs to harness the low-income mass market.

The Need to Set Aside Small Amounts and Turn it into Large Useful Sums

Notwithstanding that the unbanked live mostly in our rural villages, urban shanties and slums and operate in the informal economy without banking facilities, they are able to set aside small amounts out of their regular incomes and turn it into large useful sums. In this way they are able to provide for their marriages, childbirth in the family, children's education and home-building, festivals, investment in healthcare as well as in existing and new businesses. It is thus not true that the poor don't save. They do save "in ways that are not self-evident according to the conventional understanding of savings as income surplus after consumption" [28]. They do so mainly through informal riskier mechanisms such as keeping of cash at home, joining savings clubs, buying durable goods, livestock etc. Other informal savings methods such as rotating savings and credits associations are also widely practiced in West Africa [11] including Nigeria.

However in an experimental field study in the slums of Nepal by Prina [34], it was discovered that the poor are willing to open a bank savings account, save, accumulate other assets and turn small sums into large useful sums if given access to one. The study also uncovered a huge untapped demand for liquid savings accounts with minimum account requirements as 84% of households took up the opportunity to open a savings account while 80% regularly operated theirs. The findings from this research and others show that the low-income groups can thus provide big opportunities for banks to mobilise stable deposits as well as enhance the resilience of banks and reduce their earnings' volatility [35]. Again according to Han and Melecky [36], such deposits also act as a continued source of funds even when other sources have dried up as they are less sensitive to changes in market interest rates and bank's financial condition. On the other hand, bringing in more segments into the formal financial system enhances the effectiveness of a country's monetary policy and financial system stability [35].

The Need to Invest and Increase Own Wealth

It is interesting to note that the unbanked at the base of our economic pyramid know exactly how to better their lot. Their entrepreneurial spirit could be seen in their ability to raise capital, carry out investment and claim fully the resulting residual earnings [37]. This may include buying a piece of land, other productive assets or even giving bribes to secure a permanent job [28]. In raising funds to finance identified opportunities, they are likely to sell some assets or borrow from unregistered sources such as family, friends, moneylenders, pawnbrokers or even draw from their previous savings. In the same way, small enterprises have relied on their limited earnings to invest in identified promising growth opportunities [11] as regulated financial institutions are not willing to lend them money and costs of borrowing from informal sources tends to be expensive [37]; the sale of an asset is however limited to what is available and drawing from past savings to what has been saved. Thus, the lack of access to finance inhibits their ability to increase own wealth and manage uncertainty [6,38]. However, this funding gap represents a massive market opportunity for financial service providers to satisfy and grow their balance sheets as well as take millions out of financial exclusion and poverty. All that is required are appropriate customer value propositions and constellations that will profitably meet the unsatisfied needs of the sector at scale.

The Need to Efficiently and Equitably Make Payments and Remittances

In Nigeria as is the case in other Sub-Saharan African (SSA) countries, majority of the population at the base of the economic pyramid live in the rural areas, urban shanties and slums and operate mostly in the informal sector of the economy. Transactions in the segment are therefore cash based as most people have no access to formal banking account. Thus, large amounts of cash are moved for long distances to settle transactions. In the same way, remittances to and from the segment are mostly done through informal money transfers such as travelling friends, bus drivers, couriers [39]. These informal methods are however expensive, slow and risky and might not be reliable in emergency situations.

It is interesting to note that in a study of the payment and transfer behaviours of Sub-Saharan Africans, Kendall et al [39] discovered that about 34.8 million consumers in Nigeria use only cash options as means of payment and that about 32% of those surveyed had received a domestic transfer in the last 30 days. The result to cash payments indicates that a large segment of the population have no access to the formal banking system. However while most people at the base of the economic ladder have no bank account, they possess a mobile phone or have access to one [40]. With the above findings, Kendall et al concluded that Nigeria has high potential of expanding access to financial services to those currently excluded through affordable mobile services [39]. It is therefore amazing that this massive market opportunity is still untapped in Nigeria notwithstanding that it is possible to serve the segment at scale and that it is even taking place elsewhere [38] on the continent. It is in the light of this scenario that the proposals by the two mobile giants to enter the mobile banking segment are thus great news. These corporations have the experience of serving the low-income segment and the reach, technology, empathy and deep understanding of the needs of the bottom of the economic pyramid market. If these metrics are wrapped in appropriate business models [27], a game changer of our life time is born.

The Need to Manage Risks and Uncertainties

The income streams of those at the base of our economic pyramid are not even; they are volatile and subject to various risks and uncertainties as the income and expenditure streams of the segment do not always coincide with each other seamlessly. However, this group has no formal insurance as they lack access to financial services; their risks are thus informally pooled over time through informal social networks [37] of neighbors, friends and relatives. For example, the loan exchanges between neighbors and relatives in the rural areas, shanties and slums of Nigeria [30] and Philippines [41] serve as risk coping mechanisms in times of economic shocks. Even the exchanges of gifts do serve as risk sharing [42]. Moreover the holding of non-agricultural jobs by rural households outside agriculture serve as insurance [37] just as the withdrawal of children from schools [43] in times of economic stress is a coping strategy employed by the low-incomers. More so, in times of ill-health some people may borrow while others may not visit the hospital for lack of money and some may even spend less on feeding [44] or draw from their past savings [34].

However as noted by Banerjee and Duflo, this informal insurance practices have their limitations as they rely on the willingness of the fortunate in society to support the less fortunate in times of shock [37]. Again it relies heavily on informal social networks to spread risk over households but these networks are not well diversified as they live nearby, have similar incomes and occupations [41].

On the other hand, these informal financial tools offer flexibility and convenience that is lacking in mainstream financial services [38]. It is however instructive to note that with appropriate CVPs and value constellations, these informal financial behaviors, practices and preferences at the base of our economic pyramid can offer massive market opportunities for financial institutions to sustainably grow their balance sheets and take millions out of financial exclusion, deprivation and poverty.

CONCLUSION

The main purpose of this paper is to highlight and discuss the massive market opportunities for financial institutions that embrace inclusive finance agenda; to provide financial services to those segments of the society that are currently underserved or excluded from mainstream financial services. In the context of the discussion, the term ‘unbanked’ has been defined as those individuals and social groups at the periphery of our current banking business that are excluded from the most basic mainstream financial services. The paper has thus argued that the huge and growing population of the unbanked in Nigeria who operate in a booming informal economy is an untapped massive market opportunity for financial institutions to capture and grow their businesses and lift millions out of poverty. This low and middle income group who make up to 80% of the total households require facilities to set aside small amounts from their regular incomes into large useful sums, borrow at reasonable cost to smoothen out their consumption or invest in wealth creating investments, make payments and receive remittances as well as manage their risks and uncertainties efficiently. However, these needs at the economic base of our society are currently un-served or not satisfied by mainstream financial service providers. The paper then examined the recent government Treasury Single Account (TSA) policy and concluded that notwithstanding its short-term pains, the policy offers financial institutions the window to look beyond the cloud to see the blue ocean market space in the uncontested bottom of our economic pyramid mass market for sustainable growth and the opportunity to lift millions out of social exclusion and poverty.

The paper then examined the market challenges and risks inherent in serving the low-income groups and concluded that the current cultures and business models of financial institutions in Nigeria that is wired to seek margins over volume is the greatest obstacle to profitably serving the low-income mass market segment. It also identified and discussed financial infrastructural gaps, information asymmetries and ineffective local institutions and outdated legal and regulatory framework as the other impediments to banking the bottom of the pyramid sector. It is however believed that with the recent financial sector reforms, our banks are quite robust and strong enough to squarely and profitably take on these challenges at scale and lift millions of people out of social exclusion, misery and poverty.

RECOMMENDATIONS

The recent ‘Arab Spring’ in the Arab world is a sounding reminder of the dangers of unshared prosperity in a country. And as discussed, the barriers the unbanked faces in accessing financial services are deeply rooted in socio-economic structures and governance hiccups that deny them access to resources which serve to accentuate inequality in society. Removing these barriers will therefore require transformational solutions and a paradigm shift on the part of financial institutions, regulatory authorities and all levels of political and societal leadership. Thus genuinely concerned stakeholders of the agenda must proactively play a role in facilitating financial inclusion by tackling squarely the identified fundamental root causes of financial exclusion rather than its perceived symptoms in their respective spheres of influence:

- Financial exclusion as a socio-economic contextual problem is pervasive to the financial industry in Nigeria as a whole and according to Porter and Kramer [45]; an industry-wide socio-economic problem is best resolved by cooperative models of major institutions in that industry. The major financial organizations in Nigeria should thus follow the example of the extractive industry and work together to jointly tackle head-on the illiteracy-driven and other identified barriers to financial inclusion including the dysfunctional credit bureaus and registries inhibiting the flow of information and thus accentuating information asymmetries in the industry. Removing these barriers will expand the frontiers of the financial services market to the underserved or un-served segments as well as mitigate social exclusion, misery and poverty in the society.

- Great companies with footprints all over our rural villages, shanties and slums have all invested heavily in generating and integrating new insights about the needs, preferences and practices of those at the economic base of our pyramid into products formulation and distribution. Our financial institutions should therefore follow the lead of organizations such as; Unilever, Nirma, Excel Industries, Body Shop, CEMEX, etc. and invest more in hearing and integrating the voices of stakeholders from the periphery into their strategic decision making process. Understanding the needs and requirements of the low-income market segment will enable financial institutions to reconcile the apparent disconnect between their current business models and the needs of the low-income households in the mass market segment. This should lead to financial products that sufficiently meet the needs and aspirations of the unbanked at the bottom of our economic ladder [45-48].

- As could be seen in India and Thailand [38], financial inclusion landscape is significantly shaped by regulatory and policy environments including the actions of individual financial organizations financial regulatory authorities in Nigeria should therefore create the right policy environment that will promote investment in innovative know-how and technology to tackle identified barriers to financial inclusion. Tackling financial exclusion will reduce cash outside the banking system; enhance monetary policy effectiveness, financial system stability and above all mitigate poverty.

- A robust legal framework and justice system is vital in creating the right environment for mutually beneficial financial intermediation. On the other hand, the absence of foreclosure legislation; outdated insolvency, bankruptcy and land use laws coupled with a sloppy justice system and an ineffective consumer protection regime is a push back on financial inclusion agenda. Overhauling and strengthening of our legal framework and local institutions such as the judiciary, consumer protection agencies including our educational system and policy environment will minimize the risks in banking the bottom of the pyramid market segment. This will enable financial institutions to fully engage with the low-income group in a mutually beneficial manner.

In a nutshell, the unbanked at the periphery of our current banking business that are waiting for opportunity to join the market economy for the first time collectively represents the market promise of Nigeria’s emerging market economy. It is neither the large public organizations nor the few wealthier individuals in our society. The segment offers an attractive mass market opportunity for financial institutions to prosper and make the world a better place. This is however for organizations with the right empathy, know-how and appropriate technologies that are wrapped in great business models.

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