LAGOS BUSINESS SCHOOL
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MAKING LEAPS IN FINANCIAL INCLUSION THROUGH MARKET-CREATING INNOVATIONS

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2019 was a phenomenal year for Ghana, Tanzania and Uganda in the growth of Digital Financial Services (DFS). Ghana captured the headlines several times with impressive mobile money adoption and transaction numbers. However, the narrative concerning Nigeria is yet to turn for the better even as our financial inclusion progress has been minimal over the past few years.

Since the National Financial Inclusion Strategy (NFIS) refresh in 2018, several stakeholders have been questioning Nigeria’s ability to meet the 2020 deadline and for good reason. The 2018 EFinA Access to Finance survey revealed that 36.6 million Nigerians live without access to financial services. Even mobile money, which was heralded to be the “magic bullet” to Nigeria’s financial inclusion woes, has failed to gain the anticipated traction as in other countries.

Despite the various regulatory and market interventions since 2009, Nigeria’s financial services industry is still plagued by non-consumption. Popularised by Harvard Business School Professor, Clayton Christensen, non-consumption is the inability of an entity (person or organisation) to purchase and use a product or service required to fulfill an important job. This inability to purchase arise from a series of constraints such as market affordability (cost), institutional voids or complexities (enabling environment) or resource or scarcity (convenience) and the like.

Christensen argues that in emerging markets, non-consumption is a common phenomenon that plagues various industries meant to improve human life and wellbeing. The list of sectors and industries plagued by non-consumption is extensive and includes health services, mobility, entertainment, housing, energy etc. In highlighting the gap, Christensen proposes the solution — market-creating interventions.

Market-creating innovations address non-consumption by transforming complex and expensive products into simpler and affordable versions, increasing their availability to the larger society. In financial services, this is the conversion of complex financial products and services into affordable and simpler versions accessible to the excluded community. Examples include m-Pesa, Paga, Microensure and Zoona.

In Nigeria, our financial inclusion journey which commenced in 2009 is still wavering and we believe a different approach is required to achieve goals and meet targets. Unless we explore new methods to tackle the non-consumption of financial services, Nigeria’s financial inclusion trajectory is bound to remain the same.

These new methods will require significant and holistic paradigm shifts in several areas including:

- Business models and capabilities that target non-consumption: In Nigeria's financial services ecosystem, innovations and business models still appear to be designed for the banked customer. The non-consuming population (i.e. the financially excluded) comprises women, smallholder farmers and micro and small enterprises. Can financial institutions design products and services that meet the needs of these customer segments and will they be viable?
- New value networks: Brick and mortar branches are the conventional distribution model for financial services. The disadvantages of this model have become apparent even as digital technology continues to disrupt the industry with new distribution models and cost structures that facilitate affordable service provision to non-consumers. But what will it take for current service providers to explore new models and cost structures? What are the implications?
- An emergent strategy: Because non-consumption markets are undefined, providers need emergent, not deliberate, strategies that address market needs. However, providers require wisdom to acquire the relevant market insights as well as how to reformulate their strategies. How can this process be accelerated?
- Executive support: Like other businesses that target non-consumption, financial inclusion initiatives with their apparently unsustainable lower margins, high capital requirements and undefined markets (in the context of businesses not configured for bottom of the pyramid markets) are unlikely to win executive management support. What should be done to ensure better success for pitching innovative products that target non-consumption?

Developing market-creating interventions are a strategic imperative for targeting bottom of the pyramid markets across industries.

The issues highlighted in this article are just the tip of the iceberg. Nevertheless, they must be addressed to unlock financial services at the bottom of the pyramid, and ultimately move the financial inclusion needle.

The time for collective action is now.

What other issues have you observed in Nigeria's financial services industry that pose a cog in the wheel of the achievement of financial inclusion?