Available online at www.sciencedirect.com

ScienceDirect

Review of Development Finance 4 (2014) 104–114

Review of DEVELOPMENT FINANCE

www.elsevier.com/locate/rdf

Access to and use of bank services in Nigeria: Micro-econometric evidence

Uchenna Efobi [a,*], Ibukun Beecroft [a], Evans Osabuohien [a,b]

[a] *Covenant University, Nigeria*

[b] *Alexander von Humboldt Research Fellow, German Development Institute, Bonn, Germany*

Abstract

This study examined the access to, and use of bank services in Nigeria using data from the World Bank Household Survey (2011) on financial inclusion. A framework was developed to situate the decision of individuals towards financial services in Nigeria. We examined three dependent variables – use of bank services, use of the account to save and frequency of bank withdrawals. Our results show that the attributes, income level, age and ICT inclination of individuals have an effect on the access to and use of bank services in Nigeria.
© 2014 Africagrowth Institute. Production and hosting by Elsevier B.V. Open access under CC BY-NC-ND license.

JEL classification: D01; G02; G21

Keywords: Banking services; Financial inclusion; Financial services; Individuals' attributes; Nigeria; Savings

1. Introduction

Financial inclusion[1] connotes an increasing access to formal financial services such as having a bank account, and using credit and savings facilities of banks. On the other hand, financial exclusion occurs when access to financial services is hampered by constraints (such as distance to financial institutions), despite the exceeding marginal benefit over the marginal cost from using these services. The latter is unattractive in an economy as its adverse macroeconomic effects are numerous and they include the reduction in aggregate savings, low domestic investment borne from reduced savings and epileptic development of the financial system.

Consensus is being reached on the benefits of financial inclusion to national development. Some of these include poverty reduction, decrease in the level of inequality and enhanced private investment (Beck et al., 2007; Allen et al., 2012). Also, financial inclusion enhances the attraction of remittances, as it eases the transfer of funds from abroad (Demirguc-Kunt et al., 2011). Needful to state, the going concern of banks depend on the extent of financial inclusion since banks require customers' funds for re-investment and bank liquidity; and because the charges on bank services rendered to customers form part of banks' overall profitability. Other gains from financial inclusion include improved household consumption and female empowerment (Ashraf et al., 2010).

Following the benefits from financial inclusion, countries are beginning to develop strategies to increase individuals' access to financial services. In Nigeria, some of the strategies recently developed by the Central Bank to reduce the 46.3% adult population currently excluded from financial services include: enhancing bank–customer relationship, electronic banking, public enlightenment about financial services and the introduction of credit enhancement schemes. Despite the appreciable effort and its consequent implications, we argue that for sustainable financial inclusion to be attained in Nigeria, there is the need for the consideration of a 'bottom-top approach' in policy formulation. It becomes imperative to understand the factors that impede/enhance individuals' access to financial services, which should inform policy action. The objective of this study is therefore to examine the extent to which individuals' attributes explain the access to and use of bank services in Nigeria. This perspective is budding and some studies that have

* Corresponding author. Tel.: +2348036273494.
E-mail addresses: efobi99@yahoo.co.uk, uche.efobi@covenantuniversity.edu.ng (U. Efobi), duchessbeecroft@yahoo.com, ibukun.beecroft@covenantuniversity.edu.ng (I. Beecroft), pecos4eva@gmail.com, stephen.osabuohien@covenantuniversity.edu.ng, evans.osabuohien@die-gdi.de (E. Osabuohien).

[1] Financial inclusion entails access to and use of bank services. In this study, they are used interchangeably.

Peer review under responsibility of Africagrowth Institute.

1879-9337 © 2014 Africagrowth Institute. Production and hosting by Elsevier B.V. Open access under CC BY-NC-ND license.
http://dx.doi.org/10.1016/j.rdf.2014.05.002

attempted to follow this approach have, at best, considered a descriptive analysis of the trend of financial inclusion in African countries (Demirguc-Kunt and Klapper, 2012) and conducted surveys on the extent of financial inclusion in Nigeria (Ladipo, 2012). The shortcoming of these approaches is that they present a description of possible associations and do not clearly show the significance of the associations; therefore, clear scientific conclusions cannot be easily drawn from their findings.

Our focus on Nigeria is instructive because of the rising rate of adult financial exclusion. In 2010, only about 36% of the adult population in Nigeria – roughly 31 million out of an adult population of 85 million – operated a formal bank account (Central Bank of Nigeria-CBN, 2012). This figure, when compared to South Africa and Kenya that had about 68% and 41% adult population operating a formal bank account in the same period is worrisome, calling for an urgent inquiry into the factors that can likely improve the trend of adult financial inclusion. Nigeria, having the second largest financial industry in Africa, makes the findings from this study useful for policy action in other African countries. Presently, the rate of financial inclusion in the region is relatively low: for instance, only 55% of the adult population with tertiary education has bank accounts, but only about 10% of those with primary or no formal education in the region have bank accounts (The Economist, 2012).

The approach of this study – focusing on individuals' attributes – helps to solve two distinct problems that are popularly associated with economic analysis. The first is the problem of endogeneity, which plagues studies[2] that have focused on financial sector development. We are aware that Demirguc-Kunt et al. (2011) raised this issue when they considered remittances and banking sector breadth in Mexico. They argued that conclusions that are reached on financial sector development, using aggregate data are subject to at-least some form of endogeneity. This implies that the factors that explain financial sector development are also being explained by other factors. Therefore, by using survey data that contains individuals' information, as it is in this study, the possibility of the existence of endogenous variables is ruled out since the measurement errors and reverse causation are reduced.

Secondly, some of the measures used by extant studies, in measuring financial inclusion, are adjudged as problematic, overestimated and may not be robust. For instance, the popular measures of financial inclusion – number of accounts per capita, in Honohan (2008), Kendall et al. (2010), and Demirguc-Kunt et al. (2011), contain individuals who are likely to have more than one bank account. Likewise, foreigners who were not included as part of the population but own bank accounts are likely to be counted among the aggregate measure of financial inclusion. This will likely overstate the extent of access to and usage of bank services in Nigeria. Our approach, which is 'access to and use of bank services' by individuals, circumvents this problem. Apart from these identified gaps, we also accessed the individuals' level of financial discipline and ICT inclination as explanatory variables to the extent of financial inclusion; this is because policy attention is geared towards enhancing ICT usage in Nigeria. For instance, the Central Bank of Nigeria's summary report on National Financial Inclusion Strategy 2012, clearly emphasizes on the need for ICT development of current/potential bank customers as a step towards better financial inclusion. Financial discipline on the other hand, represents the innate attributes of the individuals which are capable of affecting their decisions to engage bank services. This has been inadvertently neglected in existing literature, and which if included will give a more robust discussion on the factors affecting access to and use of bank services in Nigeria.

The remainder of the paper is distributed as follows: we presented an overview of the financial sector in Nigeria, taking note of the extent of financial inclusion. The review of literature which includes our analytical framework follows in the third section. The World Bank Household Survey on financial inclusion 2011 – also referred to as the Gallup World Poll Survey – around the world, was used in estimating our empirical model and we discussed our results with policy recommendations.

2. Stylized facts: the Nigerian financial sector

Just like other countries, the Nigerian financial sector comprises of both the money market and the capital market. The money market is where short-term financial instruments are traded and it is regulated by the Central Bank. The capital market is where long-term financial instruments are traded, with the Security and Exchange Commission serving as the apex regulatory body. The CBN has played major roles in the overall economic development of Nigeria. For instance, the regulation by the CBN to the commercial banks to set aside 10% of their profit before tax to finance Small and Medium Scale Enterprises is a vivid example of CBN's role.

Despite the development of the Nigerian financial sector, the performance metrics using the domestic credit provided by the banking sector as a percentage of GDP reveals a consistent lag when compared to the average of countries in other regions. Fig. 1 reports that Nigeria's trend has consistently remained below 50% for the period 1990–2010. On the other hand, countries in other regions had an average contribution of above 50%, except for MENA and LAC, which fluctuated slightly above and below 50% for some parts of the period. This trend is the outcome of financial services that was provided by 24 deposit money banks, 90 microfinance banks, 5 development finance institutions, 126 bureau de change, 112 finance companies (Non-Bank Financial Institutions), 98 primary mortgage institutions and 5 discount houses in Nigeria.[3]

Deposit money banks constitute a significant component of the Nigerian financial sector, however, their services, such as payment platforms, and savings and credit facilities; have reached just a fraction of the population. Looking at Table 1,

[2] See Aggarwal et al. (2011).

[3] For full report, see Enhancing Financial Innovation and Access 2010 full report at http://www.efina.org.ng/assets/Documents/EFInAFinancial-Services-Landscape-in-NigeriaFull-ReportSep-2010.pdf?phpMyAdmin=%2CWvBxPNpx0z2BcKe8h2UcHJI%2CXb.

Download English Version:

https://daneshyari.com/en/article/986258

Download Persian Version:

https://daneshyari.com/article/986258

Daneshyari.com