INCLUSIVE FINANCIAL SYSTEM: A REVIEW OF EMERGING ISSUES FOR NIGERIA

By

Philip Chimobi Omoke (Ph.D)
Department of Economics and Development Studies
Covenant University
Km 10. Idiroko Road, Ota
Email philomoke@yahoo.com
Tel +2348037432483

Abstract

Monetary authorities' solution to financial exclusion in Nigeria is through microfinance banks, this paper looks at the concepts of financial exclusion, factors affecting access to financial services, cost, causes and consequences of financial exclusion. The paper also looks at the emerging issues in financial exclusion and why microfinance as a panacea for financial exclusion will not work in Nigeria. We recommended the intervention of government both as facilitator and legislator to tackle the problem of financial exclusion in Nigeria.

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Introduction

Many Nigerians, for numerous reasons, are unbanked and lack access to formal financial services. The results of the EFInA Access to Financial Services in Nigeria 2010 survey showed that 39.2 million Nigerians representing 46.3% of the adult population are financially excluded; whilst only 25.4 million Nigerians, representing 30% of the adult population are banked. Statistics released by Nigeria's apex bank - the Central Bank of Nigeria (CBN) and the National Bureau of Statistic (NBS) have shown that 50 per cent of Nigerians are excluded from the Nigerian financial system. Figures from these agencies show that as at December 2011, there are 24 deposit money banks with a combined branch network of 5789 and 816 microfinance banks operating in the country; which brings the total bank branches in the country to 6605 with the ratio of bank branches to the total population standing at 24,224 persons. This indicates a high level of financial exclusion and lack of inclusive financial system. An inclusive financial system is a financial system that allows broad access to financial services to all segment of the population without price or non-price barriers to their use and is especially likely to benefit poor people and other disadvantaged groups. In an underdeveloped financial system, certain segments of the population with sporadic financing requirements for non-productive consumption purposes and other emergency requirements such as medical expenditure, experience difficulties in obtaining appropriate access to financial services. As a result, they have to resort to high cost informal sources such as moneylenders. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs and small enterprises must rely on their limited earnings to pursue promising growth opportunities. This can contribute to persistent income inequality and slower economic growth. It is in the

light of the above that this study aims at examining the concept of financial exclusion with the primary objective of looking at the emerging issues and drawing appropriate inferences that will assist in designing monetary and financial policies that will bring about inclusive financial system in Nigeria. To achieve this objective, this paper will be structured as follows; preceding the introduction is section two which looks at conceptual and definitional framework. Section three examined the dimensions and factors affecting access to the financial system. Section four is concerned with the cost of financial exclusion while section five and six bothers on the causes, consequences and emerging issues in Nigeria while section seven summarises and concludes the study.

Financial Exclusion: Conceptual and Definitional Framework

According to the United Nations the main goals of inclusive finance are as follows:

- Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.
- Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required.
- Financial and institutional sustainability as a means of providing access to financial services over time.
- Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

Traditional financial services like savings accounts have been too costly and inconvenient for the poor to obtain and too expensive for banks to provide to clients who deposit just a few amount of money at a time; this implies that these categories of clients are excluded from the financial system.

The term financial exclusion was first coined in 1993 by geographers who were concerned about limited physical access to banking services as a result of bank branch closures (Leyshon and Thrift, 1993). Throughout the 1990s, there was also a growing body of research relating to difficulties faced by some sections of societies in gaining access to modern payment instruments and other banking services, to consumer credit and to insurance. There was also concern about some people lacking savings of any kind. It was in 1999, that the term financial exclusion seems first to have been used in a broader sense to refer to people who have constrained access to mainstream financial services (Kempson and Whyley, 1999).

A person is considered financially excluded when they have no access to some or all of the services offered by mainstream financial institutions in their country of residence or do not make use of these services. Lämmermann (2008) described financial inclusion as the inability of individuals, households or groups to access necessary financial services in an appropriate form. It can stem from problems with access, prices, marketing or financial literacy, or from self-exclusion in response to negative experiences or perceptions.

According to Réseau Financement Alternatif (2008), *financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong. The key to this definition is 'difficulties in accessing appropriate financial services and products'* the way to access and use those services may be more and more-over demanding on various aspects as geographical, technical, cultural, educational or about guarantee and risk analysis criteria. This leads to a large range of access and use difficulties that are deeply related to each country's market structure. Financial products will be considered "appropriate" when their provision, structure and costs do not lead the customer to encounter access and/or use difficulties. These difficulties are caused simultaneously by the characteristics of the products and the way they are sold (supply side) and the situation and the financial capability of the customer (demand side). The analysis of each structure (both demand and supply sides) may, for each country, highlight the way supply meets demand, and how appropriate it is provided by mainstream providers.

With regard to accessing appropriate financial services and products, the World Bank (1995) has listed four key areas which are considered to be essential and, therefore, one to which all in society should have access to.

These are:

Banking Exclusion Transactions: The access to banking (transaction banking services in particular) is seen as a universal need in most developed and cashless societies, or will become so in all developing countries as they employ more technologies in delivery of banking services.

The provision of transaction banking services is key to accessing other financial services such as credit and savings. Lack of transaction banking services runs parallel with social exclusion, as people are not able to:

- receiving regular (electronic) payment of funds such as wages, pensions or social assistance;
- converting cheques or vouchers into cash;
- storing money safely until it needs to be withdrawn;
- paying for goods and services other than in cash;
- paying bills electronically; and
- making remittances.

This distorts their access to broader economic opportunities and increases their risk of poverty. Since it is not enough to have access to a banking account to be qualified as "financially included", we consider the following degrees of inclusion:

- 'Unbanked' who are generally people with no bank at all;
- 'Marginally banked' who are people with a deposit account that has no electronic payment facilities and no payment card or cheque book. It can also be people who do have these facilities but make little or no use of them; and
- 'Fully banked' are people that have access to a wide range of transaction banking services that are appropriate to their needs and socio-economic status.

Savings Exclusion: The problem related to savings exclusion is completely different from banking exclusion. The access to a simple deposit account does not seem to bring many problems. In addition, a lack of access or use of savings account may bring inconvenience in day-to-day life, but cannot be related to social exclusion. Nevertheless, some social problems have been identified related to savings account:

- lack of identification document (relevant for transaction banking too);
- lack of any significant advantage bring by a deposit account (due to costs, fees and/or complexity of the procedures/contracts);
- in addition, we have to consider that the lack of deposit is more often a consequence than a cause of social problems, as in the following cases:
- lack of money to save (low income, low pension, etc.);
- lack of habit to save money in bank; and
- unwilling to deal with banks because of negative past experience or prejudice.

Credit Exclusion: Access to credit either for productive or consumption purpose is necessary for daily existence. Credit is the main financial tool that enables access to goods or expenditures that oversize both income and budget such as machinery, equipments, automobiles, housing, furniture, etc. It may play a significant role to smooth consumption and to protect against income shocks. 'Credit excluded' people, those who are refused access to appropriate and flexible credit by mainstream lenders, are exposed to the following difficulties:

- exposed to informal moneylenders who loan money at extortionate rates;
- impedes the averaging out of financially difficult periods and may lead to over-indebtedness; and
- impacts on access to the minimum national standard of living, and can stigmatize people.

Problems of access to or use of credit are more difficult to define and contain, because of their multidimensional aspects: various products, various providers, various laws, various demands and various methodologies (credit score). Moreover, the need for someone to have an appropriate credit has to be balanced with the reasonable need for banks to avoid too high risks. For all these reasons, building a precise scale from a fully excluded to a perfectly and appropriately served client, is difficult.

A first tentative that may present more broadly the various situations that can appear could be the following, starting from the very excluded to the totally included:

- credit excluded: lack of access;
- Inappropriately served by alternative lenders: by sub-prime, money lenders or any kind of providers with a particularly high interest rate and other possible bad conditions compared to the market average;
- inappropriately served by mainstream lenders: mainstream providers may offer inappropriate credit;
- appropriately served by alternative lenders: even if few cases may appear, the probability exists; and
- appropriately served by mainstream lenders: the ideal situation.

Insurance Exclusion: Access to insurance services has increasingly come under scrutiny because insurance are essential in the organisation of modern societies and are, therefore, compulsory. For example, motor-vehicle insurance, fire insurance or insurance for certain occupations. However, there is no clear definition of which types of insurance are considered essential so that anyone who lacks them might be considered financially excluded.

Dimensions and Factors affecting Access to Financial Services

Kempson and Whyley (1999), Kempson *et al.,* (2000) and Connolly and Hajaj, (2001), identified a number of dimensions or forms of financial exclusion. The critical dimensions of financial exclusion include access exclusion; this is restriction of access through the process of risk management by financial services providers. The second dimension of financial exclusion is condition exclusion; this is the conditions attached to financial products which make them inappropriate for the needs of some segments of population; we also have price exclusion; some people can only gain access to financial products at prices they cannot afford. Marketing exclusion occur when people are effectively excluded by targeted marketing and sales; and self-exclusion is when people decide not to opt for a financial product because of the fear of refusal to access by the service providers.

With respect to factors, a number of factors affecting access to financial services have been identified in many countries. These are:

Gender issues: Access to credit is often limited for women who do not have, or cannot hold title to assets such as land and property or must seek male guarantees to borrow.

Age factor: Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers.

Legal identity: Lack of legal identities like identity cards, birth certificates or written records often exclude women, ethnic minorities, economic and political refugees and migrant workers from accessing financial services.

Limited literacy: Limited literacy, particularly financial literacy, *i.e.*, basic mathematics, business finance skills as well as lack of understanding often constrains demand for financial services.

Place of living: Although effective distance is as much about transportation infrastructure as physical distance, factors like density of population, rural and remote areas, mobility of the population (*i.e.,* highly mobile people with no fixed or formal address), insurgency in a location, *etc.,* also affect access to financial services.

Psychological and cultural barriers: The feeling that banks are not interested to look into their cause has led to self-exclusion for many of the low income groups. However, cultural and religious barriers to banking have also been observed in some of the countries.

Bank charges: In most of the countries, transaction is free as long as the account has sufficient funds to cover the cost of transactions made. However, there are a range of other charges that have a disproportionate effect on people with low income.

Terms and conditions: Terms and conditions attached to products such as minimum balance requirements and conditions relating to the use of accounts often dissuade people from using such products/services.

Level of income: Financial status of people is always important in gaining access to financial services. Extremely poor people find it difficult to access financial services even when the services are tailored for them. Perception barriers and income discrimination, among potential members in group-lending programme, may exclude the poorer members of the community.

Type of occupation: Many banks have not developed the capacity to evaluate loan applications of small borrowers and unorganised enterprises and hence tend to deny such loan requests.

Attractiveness of the product: Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

4. Cost of Financial Exclusion

According to the Treasury Committee, UK (2006), financial exclusion can impose significant costs on individuals, families and society as a whole. These include:

- barriers to employment as employers may require wages to be paid into a bank account;
- opportunities to save and borrow can be difficult to access;
- owning or obtaining assets can be difficult;
- difficulty in smoothening income to cope with shocks; and
- Exclusion from mainstream society.

In terms of cost to the individuals, financial exclusion leads to higher charges for basic financial transactions like money transfer and expensive credit, besides all round impediments in basic/ minimum transactions involved in earning livelihood and day-to-day living. It could also lead to denial of access to better products or services that may require a bank account. It exposes the individual to the inherent risk in holding and storing money operating solely on a cash basis; increases vulnerability to loss or theft. Individuals/families could get sucked into a cycle of poverty and exclusion and turn to high cost credit from moneylenders, resulting in greater financial strain and unmanageable debt. At the wider level of the society and the nation, financial exclusion leads to social exclusion, poverty as well as all the other associated economic and social problems. Thus, financial exclusion is often a symptom as well as a cause of poverty. Financial exclusion is not evenly distributed throughout society; it is concentrated among the most disadvantaged groups and

communities and, as a result, contributes to a much wider problem of social exclusion. Another cost of financial exclusion is the loss of business opportunity for banks, particularly in the medium-term. Banks often avoid extending their services to lower income groups because of initial cost of expanding the coverage which may, sometimes, exceed the revenue generated from such operations. These business-related concerns of banks were, however, meaningful when technology development was at a nascent stage and expanding the coverage of financial services required substantial initial investment. The strides in technology have now reduced the required initial investment in a significant manner. What is required is to explore the appropriate technology which is suitable to socio-economic conditions of the region under consideration. Moreover, availability and usage of financial services by the otherwise excluded population groups would lead to increase in their income levels and savings. This, in turn, would have the potential to increase savings deposits as well as credit demand, implying profitable business for banks in the medium-term.

The issue of cost has been conceived from two angles, which are inter-twined. First, the exclusion may have cost on the individuals/entities in terms of loss of opportunities to grow in the absence of access to finance or credit. Second, from the societal or the national perspective, exclusion may lead to aggregate loss of output or welfare and the country may not realise its growth potential. Recognising the implicit and explicit cost of financial exclusion across the globe, many countries have initiated measures to deal with the same.

Causes and Consequences of Financial Exclusion

The earliest analysis of financial exclusion concluded that it involves "*those processes that serve to prevent certain social groups and individuals from gaining access to the financial system*" (Leyshon and Thrift, 1995). The authors contend that people with limited incomes and certain disadvantaged social groups represent too high a risk as customers for mainstream financial institutions, which then avoid geographical areas where these groups of the population live. In other words, financial exclusion was seen in terms of **physical and geographical access**. Since then, there has been a large body of research that has identified a wide range of other factors that restrict access to and use of financial services or that renders them less appropriate. First among these, are societal factors, which include the liberalisation of the financial market. Anderloni and Carluccio, (2006), Atkinson *et al*, (2006) and Kempson *et al*, (2000) argued that the liberalisation of the financial market has led to an increase in the number and complexity of financial products and providers. While this has widened access, the confusion that arises makes it difficult for some people to engage with financial services. Structural changes in the labor market that leads to job insecurity and accompanied by high levels of youth unemployment according to Anderloni and Carluccio (2006) is another societal factor that can exclude those with job insecurity and the unemployed youths from the financial system. In addition, the tightening of money laundering rules in response to terrorist attacks means that many people may face difficulty in getting access to services (Anderloni and Carluccio, 2006; Kempson, 2000). Demographic changes, such as rising levels of divorce and the tendency for young people to leave home at an older age as reported in Anderloni and Carluccio, (2006) and Kempson *et al*, (2000), is a social factor excluding a segment of the people from the financial system.

Much of the previous research and analysis has, however, tended to concentrate on the reasons for exclusion in specific areas of financial services. In the area of **transaction banking,** a range of factors covering both **supply and demand,** has been identified across a wide range of countries (for an overview, see: Anderloni and Carluccio, 2006; Corr, 2006; Gloukoviezoff, 2005; Kempson, 2006). On the **supply** side, banks refuse to open full transaction bank accounts for certain groups of people, such as those with a poor credit history, unstable patterns of employment or those who fail credit scoring systems because their characteristics mean they are assessed as a high risk. In some countries, there exists negative registers for payment failures and insolvency, although legal initiatives aim to reduce this too-stigmatising risk. People unable to satisfy identity requirements also find it difficult to open an account. This applies especially to migrants but can also affect a wider group of people who do not have the standard forms of identity required. This is a particular problem in countries that lack identity cards, where banks rely on passports and driving licences, instead. Moreover, the terms and conditions and charges associated with transaction bank accounts deter both access and use. This includes such things as minimum balances, monthly charges and charges per transaction - especially if the charges are regressive and disproportionately affect people on low incomes.

On the **demand** side, people are deterred from accessing and using transaction banking services for a range of psychological and cultural reasons. These include elderly people who are part of a 'cash only' generation, migrants and also people on low incomes generally, who frequently see banking as only being appropriate for people who are better off than they are and fear losing control of their money if they cease to deal only in cash. In Italy, people are deterred from opening an account if it does not have an overdraft facility to ease access to money paid in. Delays in clearing cheques paid into an account mean that people cannot have instant access to any money paid in (Anderloni, 2003).

The balance of importance of these factors does, however, vary between countries. In Italy, for example, transaction bank charges are very high (Anderloni and Carluccio, 2006). In the United Kingdom, there are no transaction charges but proof of identity is a particular problem along with very high charges for unauthorised overdrawing of accounts (Collard et al, 2001; Kempson and Whyley, 1998; Kempson, 2006). While in France, many people are denied access to an account as a result of over-indebtedness (Gallou and Le Queau, 1999; Kempson, 2006). In Sweden, which has traditionally had high levels of banking inclusion, the general move to internet-based banking is denying use of transaction accounts to those who lack access to the internet (Anderloni and Carluccio, 2006). This last point is important because it underlines the need to constantly reassess barriers to access and use.

Moving on to **consumer credit**, previous research has identified a range of similar factors again relating to both **supply and demand**. Refusal by credit companies is a very significant reason across all countries, as a result of lack of information about an individual at credit reference bureaux, an adverse credit history or failing the score card operated by creditors as a consequence of lack of stable employment, low income and other personal characteristics (Corr, 2006; Ellison, Collard and Forster, 2006; Kempson and Whyley, 1999; Kempson et al, 2000; Nieri, 2006). Often, just as significant is the fact that some people do not apply for credit as they think they will be turned down (Nieri, 2006; Kempson and Whyley, 1999; Kempson et al, 2000). It has been estimated that across France, Italy and

Spain, 16 per cent of people have actually been refused credit and another six per cent did not apply because they expected to be refused (Nieri, 2006). Also significant in limiting access to and use of unsecured credit, is fear of borrowing and especially of using forms of credit such as overdrafts and credit cards where it is easy to lose control over spending (Kempson and Whyley, 1999; Kempson et al, 2000; Collard and Kempson, 2005). People who cannot easily gain access to unsecured credit are often deterred by the high cost and poor contractual terms obtained through intermediaries (Nieri, 2006) or in the sub-prime market (Collard and Kempson, 2005).

Many people on low incomes need to borrow fairly small sums of money for a short period of time. They also prefer fixed term loans which they know they will repay. Most mainstream lenders have minimum amounts that they are prepared to lend as a fixed term loan which are ways in excess of the requirements of such people (Carbo et al, 2005 Collard and Kempson, 2005; Corr, 2006). Finally, religion can act as a barrier to use especially in Muslim populations (Collard et al, 2001; Collard and Kempson, 2005; Kempson et al, 2000).

Measures to Deal with Financial Exclusion

In order to promote an inclusive financial system, government intervention is needed. Government intervention is premised on the fact that the market system has failed to provide an inclusive financial service to all and sundry. Governments can intervene in two ways: as facilitator and as legislator, to deal with financial exclusion.

Governments as facilitator: Governments have acted as facilitator to financial inclusion in a number of ways depending on the country for example; Governments have commissioned or undertaken research projects to investigate the causes of financial exclusion and recommending measures to combat them. In **Poland**, the "Accessible bank" was a countrywide project to understand the access difficulties faced by disabled or elderly people, in order to highlight the particular needs of some customers. This programme was run and supported by the National Bank of Poland. In the **United Kingdom,** the "Financial Inclusion Task force" is assessing the improvement of the situation by measuring the number of unbanked people when government and banks have accepted the shared goal of halving the number of people who lack a bank account. Authorities have also taken steps to assess the effectiveness of initiatives to promote financial inclusion, including verifying that financial products created to promote inclusion are actually meeting the needs of the target population and requiring scrutiny and approval of marketing material by an independent regulator. In some instances, this has led to the establishment of voluntary codes and charters by financial service providers.

Governments as facilitator can enlarge the supply of financial services. This includes encouraging banks to offer basic bank accounts (in **Germany**, the **United Kingdom** and **Belgium** as a first step), and promoting easier access to the basic financial products provided by banks. Governments have also intervened in markets to stimulate low-cost, low-risk products such as stakeholder pensions and the proposed 'personal (pension) accounts' in the United Kingdom.

Government can tackle the reluctance to use financial services by those who are excluded through education, financial literacy, education and advice. In **Poland,** the "Week of savings" campaign is organised by the Financial Supervisory Commission mainly in

(secondary and high) school. There is an improved access to internet banking, which is the cheapest way to use banking services. Finally, the National Bank plays an important role with regards to financial education, entrepreneurship, financial literacy (workshop, distance learning), and the creation of the www.NBPortal.pl.

In the **United Kingdom**, since spring 2003, the governments have decided to pay welfare benefits and pension into bank accounts, with the idea to increase inclusion and reduce costs. This measure is also encouraged in Ireland.

Government can facilitate financial inclusion by acting as provider of financial services. Governments act as providers via a public provider or through two or three sided partnerships with NGO or not-for-profit institutions and/or commercial provider. This may be appropriate to reach the target group (particularly at-risk) and to act locally. Many initiatives have been implemented with public social welfare services or without mainstream providers, which may appear as stigmatising;

Government as legislator: Legislative action by governments to promote financial inclusion can be grouped in three main areas:

- **Direct legislation,** designed to impose upon financial services providers an obligation or prohibition to provide a certain kind of financial service and to organise, regulate, monitor or control financial services provision in order to ensure financial inclusion.
- **Indirect regulation,** designed to remove obstacles that reinforce financial exclusion
- **Positives incentives,** designed to encourage the changes in the banking system to promote financial inclusion.

Direct legislation to promote financial inclusion includes multiple legislative interventions by government with the purpose to impose to achieve various objectives, such as:

- ensuring banking institutions' financial capability;
- ensuring consumer protection and therefore increase trust in the market (improvement of general relationships between banks and customers, mediation for disputes settling, protection for investments products...);
- ensuring transparency and information about products and costs in order to ensure effective competition among providers;
- dealing with over-indebtedness and implementing curative measures; and
- promoting financial inclusion as well as access and use of appropriate financial services.

Sometimes, specific obstacles remain that hinder the involvement of some people with the banking system despite the existence of direct legislation and regulation, These obstacles can be considered as “side effects” generated by the application of legislations aiming at other purposes than financial inclusion, having as practical consequence to deny people from accessing financial services or to deter them from accessing or using it (called self- exclusion).

Indirect legislation includes provision aimed at removing those specific obstacles;

- the following obstacles reinforcing financial exclusion have been identified:
- legal requirements regarding customer identity and impact of money laundering; regulation as an obstacle to access and use transaction banking and savings services;
- **risk of income seizures** as an obstacle to use transaction banking services; and
- **disproportionate impact of taxes for those on low incomes** as an obstacle to access and use transaction banking services.

The final area of legislative intervention consists of positive incentives aimed at encouraging the use of banking and bank products by people at risk of exclusion. These generally fall within one of the following four categories:

- **Tax relief** (products free of tax or with tax benefits);
- **Guarantees to reduce credit** risk and therefore increase creditworthiness; and/or
- **Occasional monetary incentives** (such as bonuses and premiums under specific circumstances).

The Emerging Issues in Nigeria

What are the emerging issues with respect to an inclusive financial system for Nigeria? The Central Bank of Nigeria recognises the challenges of financial exclusion in Nigeria. To tackle this challenge of financial exclusion, with the Central Bank of Nigeria in conjunction relevant global and local partners have instituted the revision of the Microfinance Policy Regulatory and Supervisory Framework (MPRSF), with the conclusion of the National Microfinance Development Strategy (NMDS), the bank is committed to the 2011 Alliance for Financial Inclusion (AFI) Global Policy Forum, which held in Mexico; with an action plan to reduce Nigeria's financial exclusion rate to 20 per cent from the present 50 per cent by 2020. What this means is that microfinance banks are the panacea for financial exclusion in Nigeria. Yunus (2011) provided seven reasons why microfinance banks in Nigeria do not cater for the poor and cannot bring about inclusive financial system. The first is that microfinance bank are not for the poor, the poorest poor. Rather, it is for traders, suppliers and importers and this explains the cut throat interest rates Nigerian Microfinance Bank's charge. Secondly, because it is for commerce, microfinance banks in Nigeria are predominately in the cities and urban area, a sharp contrast to the rural-based nature of the first microfinance bank. "Conventional banks go to the cities, particularly the big banks; they have the largest branches, and traditional microfinance banks go to the villages. Thirdly, Nigerian microfinance banks insist on collateral and they don't lend to start a new business. This, according to Yunus, is not microfinance. Conventional banks want collateral and microfinance banks don't need collateral to give loan. Fourthly, microfinance banking, according to its founder, is women-oriented and focused. In Nigeria, that is not the case. It is whoever can pay the interest rate. "Conventional banks go to the men, microfinance banks go to women. Fifthly, Nigerian microfinance banks are owned and regulation required to be owned by the rich hence the minimum capital base of ₦20 million. But according to Yunus, it should not be so; it should be owned by the poor who are also its customers. "Conventional banks are owned by rich men, Grameen Bank is owned by the

poor women", Yunus said. The sixth flaw is that microfinance banks are allowed to charge any interest rate. But in the Gremeem Bank concept, the interest rate is capped at 10 per cent margin between the cost of funds and interest rate. Yunus said the highest interest rate which is for income-yielding activities is 20 per cent simple interest and, for housing loan, it is 8.0 per cent simple interest.

However, the greatest flaw with microfinance banking in Nigeria is that it is profit-oriented. The promoters saw it as a cheap access to owning a bank and making money. Hence they set target for staff and management. Grameen Bank, on the contrary, according to Yunus was founded to solve a problem - poverty. "Microfinance is a social business; it is not for profit but to help people out of poverty. This is because poverty is the fault of the society, the individual is just a victim of poverty", he said.

In addition to the above, micro-banking in Nigeria, as exemplified by microfinance banks, suffered a number of challenges among which are lack of trust by the poor who does not see much difference between the microfinance banks and the conventional banks. Plus an uneducated population that needs adequate awareness campaigns, financial literacy and advice including supports by the regulators. The preference for gifts instead of loans by the active poor in Nigeria is a challenge facing microfinance banks. The politicians, the rich in religious circles, towns and villages all over Nigeria have cultured the poor to beggarliness and dependence rather than empowerment for productive and financial independence. Gifts are not usually regarded as re-investment treasures by the receivers. This is why givers ought to challenge the receivers to effectively put their gifts to work by rendering these helps through microfinance banks.

Summary and Conclusion

This study examined the concept of financial exclusion with the primary objective of looking at the emerging issues and drawing appropriate inferences that will assist in designing monetary and financial policies that will bring about inclusive financial system in Nigeria. To achieve this objective, the study looked at the definitional and conceptual framework of financial exclusion, examined the dimensions and factors affecting access to financial exclusion. We looked at the costs, causes and consequences of financial exclusion. Measures to deal with financial exclusion were also examined by the study. The use of microfinance bank as a panacea for financial exclusion was discussed and the challenges of the policy were brought to the fore. What the monetary authorities need to do is to examine the dimensions, factors and causes of financial exclusion and tackle it head-on. In this respect, government's intervention both as facilitator and legislator is needed to capture those who are excluded from the financial system.