



Enhancing Financial Innovation and Access with Focus on Capital Market Inclusion

Background

A well-functioning capital market can play a vital role in support of inclusive economic growth by channelling long term finance into infrastructure and other large-scale projects that create jobs and improve access to markets.

In the advent of the Covid-19 pandemic there was a spotlight on the importance of diversity in building sustainable capital markets and the need to advance an objective financial inclusion initiative that gives individuals and businesses better access to affordable financial products and services that meet their needs.

To achieve this, there is need to enhance investor diversity to create resilient capital markets, particularly in emerging economies

There are 4 key levers through which FinTech are driving financial inclusion in the capital market

Access - Financial products and services within easy reach of all segments of the population

- Access to Savings ▪ Over 3 million customers saving on platforms like Piggyvest & Cowrywise with 60%-70% being first time savers

Pricing - Financial affordability and ability of products to accommodate various income/economic groups

- FinTech have increased product affordability through higher returns –FinTech are offering 2-3X the interest rates on savings compared to traditional players

Product design/innovation - Design of financial products that cater to the needs of various segments of the population across culture, religion, gender, geography etc

- Savings & Wealth Management: ▪ Disciplined savings models through FinTech like Cowrywise ▪ Digitization of Cooperative savings through FinTech like Riby ▪ Digitization of Esusu models through FinTech like Bankly

Education (perception) - Education of consumers on the needs and benefits of financial products and services


- Savings ▪ Educating consumers on maintaining financial health e.g. Piggyvest's WAEC score enlightens users on their saving habits and how they can improve

Readiness of Innovators for creating Capital Market Access

- There is rising Fintech activity in wealth management:
 - Unmet need for better return
 - Payments disruption enabling increased customer control over their money
- FinTech are developing innovative value propositions across the financial services value chain
 - Saving product - Automated, disciplined and high return savings for middle class customers & millennials. Over NGN240bn paid out to customers in 2021 (e.g. Piggyvest, Cowrywise)
 - Wealth management - Offer customers investment options in diverse industries on online platform at attractive rates (significantly higher than banks savings accounts).



How innovation is driving capital market inclusion

- Customers value access and convenience, which has driven increased FinTech usage over the past 6 months
 - Access and convenience is the highest contributor to adoption
 - Trust in FinTechs in Nigeria has grown over the past few years particularly among low-income earners
 - Increased trust is driven by 4 factors, primarily agent relationships
 - Agents
 - Better experience/accessibility
 - Pricing/transparency
 - Ease of money withdrawal
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- Innovation in the wealth management space is expected to continue to grow
 - With payments becoming seamless and information being democratized, consumers have more control over their money and will start to look for higher returns
 - Opportunities exist for Robo-advisory to help people make investment decisions
 - Alternative investment platforms (e.g. real estate, SME financing)

Recent defaults/delays in payouts by crowdfunding platforms, particularly in the agricultural space has raised concerns about the stability of the space.

Trust remains a critical factor in driving financial inclusion. Hence, the safety and stability of mass market investment platforms is critical to increasing financial inclusion

Summary - How can capital market drive inclusion through innovation & access

- Market costs

Cost being a key consideration, depositories and exchanges have taken strong measures to improve operational efficiencies and reduce fees.

- Product diversity

Exchanges typically encourage participation by offering products and services that serve a broad range of investors. Inclusion is further supported by creating small and medium enterprise (SME) boards that allow a wider range of companies to raise capital. In addition, exchanges are beginning to offer various innovative services.

- Investor education

The efforts of infrastructure providers in promoting financial literacy and investor education include combining traditional initiatives, such as global investor days, “ring the bell” campaigns, masterclasses and training courses, and social media influencer campaigns. Exchanges, supported by government agencies and regulators, are leading this charge.

Young people are a crucial demographic and infrastructure providers are fueling their interest with initiatives that involve gaming, coding and film-making

- Technology enablement and strategic partnerships

The capital market infrastructure landscape has grown to include fintechs and start-ups that offer products and services across the value chain. Exchanges and depositories are forming strategic partnerships with these entities to adopt new technologies that help enhance access to previously underserved customer segments at lower costs.

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- Trust remains a critical factor in driving financial inclusion. Hence, the safety and stability of mass market investment platforms is critical to increasing financial inclusion