EnterpriseNGR

The SOE 2022 Report

The State of Enterprise Report 2022

Insights into **Nigeria's Financial and Professional Services** Sector

The — SOE 2022 Report

Contents

About EnterpriseNGR vi
Foreword x

Introduction

1.0 Banking
Supporting growth and the economy 18
Supporting businesses and livelihoods 30
Conclusion 36

2.0 Insurance
Providing protection against losses 44
Providing funding and contributing to employment generation 47
Conclusion 51

3.0 Capital Markets
Facilitating growth through a supportive securities market 61
Conclusion 67

4.0 Asset Management
Promoting and supporting investment through a diversified market 74
Conclusion 81

5.0 Pensions

Supporting lives 90

Supporting growth and the economy 93

Conclusion 96

6.0 Non-interest Finance

Contributing to national investments 104

Conclusion 107

7.0 FinTech

Supporting the business ecosystem 117

Improving lives 120

Conclusion 123

8.0 Professional Services

Supporting business 133

Contribution to the economy 133

Conclusion 138

9.0 Sustainable Finance

Contributing to national investments and development 146

Conclusion 154

10.0 Conclusion:

Potential of the Financial and Professional Services sector and the need for stakeholder support 159

Appendix 163

About **EnterpriseNGR**

EnterpriseNGR seeks to promote a strong Financial and Professional Services (FPS) sector with the aim of fostering an enabling environment for sustainable development of the Nigerian economy. The FPS sector comprises the following sub-sectors:

- **Banking**
- **Insurance**
- **Capital Markets**
- **Asset Management**
- **Pensions**
- **Non-interest Finance**
- **FinTech**
- **Professional Services (Legal Services, Accounting and Management Consulting) and**
- **Sustainable Finance.**

EnterpriseNGR is positioned to foster a favourable environment for engagement with policymakers and business sector advocacy — representing the Nigeria-based FPS sector and lobbying on its behalf, both domestically and internationally, to:

- drive competitiveness and sustainable economic growth;
- open markets; and
- create an enabling environment for financial market participants.

Working with government and other key stakeholders, we also intend to encourage both local and foreign investments across the FPS sector with a view to optimising its capacity.

Nigeria has the potential to take its place among the developed nations of the world, but this can only be realised if the country's Financial and

Professional Services sector, among others, is transformed and positioned to be globally competitive.

Imagine a Nigeria where...

— **The average citizen can access credit seamlessly.** This would result in a game-changing increase in aggregate demand, leading to appreciable growth in the country's productive capacity and reduced unemployment.

— **Resources are efficiently channelled to critical sectors of the economy like power, infrastructure and manufacturing.** This would effectively position the country for its long-awaited industrial age.

— **More and more people rely on insurance to protect them from loss.** This would lead to a country that is more resilient, where there are fewer business failures and fewer families are left destitute after the death of a breadwinner.

— **The FX regime is efficient and policies are consistent and well thought out.** This will, boost the confidence of both local and foreign investors.

— **Mobile money functions seamlessly and technology is used to accelerate financial inclusion.**

— **The rule of law is upheld.**

To make this a reality, EnterpriseNGR is working tirelessly to unite the FPS sector and take the initiative to work collaboratively with government and regulators to transform Nigeria into the premier financial centre in Africa. To achieve this, EnterpriseNGR is driving a deliberate effort to contribute to the further development of an enabling and stable policy environment for the FPS sector in Nigeria.

Our **members**

tengen family office

NGX Nigerian Exchange Group

ALUKO & OYEBODE

CORONATION

FBNQuest

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CHAPEL HILL DENHAM

CSCS CENTRAL SECURITIES CLEARING SYSTEM PLC

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DLM CAPITAL GROUP

INVESTMENT ONE

Custodian

Tangerine

MERISTEM

POLARIS BANK

BANK OF INDUSTRY ...transforming Nigeria's industrial sector

FIRST ALLY CAPITAL

IMPERIAL

Foreword

There is a need to ensure growth is more evenly distributed across all FPS sub-sectors as they all have enormous potential...

EnterpriseNGR is proud to present its premier *State of Enterprise Report* (SOE 2022). The report showcases the Financial and Professional Services sector's significant achievements and contributions to Nigeria's economy. It also presents up-to-date insights into the sector's impact and importance as a growth catalyst for the wider economy. By providing a current-state assessment, it offers a launch pad for discussions around policy and regulation with a view to expanding the depth and breadth of the sector.

A word of thanks to all those who have contributed to this project. It has truly taken an entire village to produce this report. I would particularly like to mention the National Bureau of Statistics and other agencies and institutions for providing data required for this report.

The FPS sector is central to the growth and broad-based prosperity of every economy. SOE 2022 is the first of its kind and looks at the FPS sector holistically. Through its nine classified sub-sectors, namely Banking, Insurance, Capital Markets, Asset Management, Non-interest Finance, Pensions, FinTech, Professional Services (Legal Services Accounting and Management Consulting) and Sustainable Finance, the FPS sector contributes to our economy, governments, businesses and people. The sector provided access to finance, facilitates foreign direct investment, contributes to employment generation, helped drive financial inclusion and enabled consumers to meet their everyday financial services needs. In addition, the sector contributed significantly to tax revenue, provided protection against loss of assets, helped employees save for their old age while reducing the retirement burden on government, and enabled improved access through financial innovations, among others. While there is still room for further development, the sector's contributions remain underappreciated.

Given the Covid-19-induced lockdowns and restrictions on traditional financial services delivery models, we have seen a quantum leap in the adoption of digital financial services. The FinTech ecosystem grew to approximately 250 firms, supporting services such as payment, credit and investment. In addition to growing beyond payment solutions, the FPS sector is also creating opportunities for other service providers to leverage existing bank accounts to offer unique benefits and services, consequently creating more indirect jobs.

In 2021, the Banking sub-sector still led others on many performance indicators. The assets of deposit money banks grew by 15.3% to ₦62.9 trillion, equivalent to 35.7% of national gross domestic product at current market prices. Banks and Other Financial Institutions contributed more than 12% of locally generated company income tax: they are the country's third-largest generator of company income tax. The penetration of other FPS sub-sectors in Nigeria is generally lower than in peer economies

There is a need to ensure growth is more evenly distributed across all FPS sub-sectors as they all have enormous potential, which is all the more reason to spur our collective efforts to build on current accomplishments and to elevate Nigeria to become Africa's premier financial services centre. To this end, this report demonstrates the commitment of EnterpriseNGR to provide a solid evidence-base to support this mission.

We encourage all stakeholders to join hands with us to ensure the transformation of Nigeria's Financial and Professional Services sector, which we believe is an essential precondition for the economic development and growth of the country as a whole.

Thank you.

Obi Ibekwe

Chief Executive Officer
EnterpriseNGR

Introduction

The role of the Financial and Professional Services sector in the economic growth and development of any country is extremely significant. It is no coincidence that the most developed countries with the highest GDP all have very strong financial systems. Given the cross-cutting nature of FPS and its impact on all other sectors of the economy, it is a vital catalyst for economic growth and development.

FPS in Nigeria has experienced tremendous growth since the return of democracy in 1999. There has been an upsurge in financial penetration diversification in financial products available in the country. There is, however, a need to ensure balanced inclusive growth across all the sub-sectors, improved depth/sophistication of product offerings, increased penetration of all sub-sectors, and development of talent. Identifying and building on the synergies between sub-sectors can accelerate the development of the financial system and strengthen the economy as a whole. Coordinated and concerted advocacy and evidence-based policy formulation jointly by policymakers and the financial services operators needs to be put in place for this to happen. Collaboration is key!

The SOE 2022 report is EnterpriseNGR's current-state assessment of the FPS sector and its contribution to national growth and development. The report also dissects the challenges facing the sector with the ultimate aim of jump-starting the conversations required to lead to necessary policy reforms.

Methodology

This report provides insights into the state of the FPS sector and the first task of the EnterpriseNGR team was to accurately break down the sector into its sub-sectors. Following interactions with our members and other key stakeholders, we categorised the FPS into nine sub-sectors — Banking, Insurance, Capital Markets, Asset Management, Non-interest Finance, Pensions, FinTech, Professional Services (Legal Services Accounting and Management Consulting) and Sustainable Finance. We analysed each of these sub-sectors individually with priority being given to assessing their performance and identifying their impact on key economic variables, such as their contribution to GDP, employment, tax, improvement in quality of life and ease of doing business.

Two interdependent stages of research were carried out:

- **Secondary research**

  This was done in two stages:

  - **Literature review:** An extensive review of existing reports, newspaper articles, TV interviews and programmes, webinars, regulatory guidelines, published books, websites and publicly-available information was carried out. Over 80 different information sources were reviewed.

- **Data analysis:** We undertook in-depth data analysis of existing quantitative information and in some cases unpublished disaggregated data. Primary sources of quantitative information include the National Bureau of Statistics, Central Bank of Nigeria, National Pension Commission, Securities and Exchange Commission, Nigerian Exchange Group, FMDQ Group, National Insurance Commission, Nigerian Insurance Association, Nigerian Bar Association, Institute of Chartered Accountants of Nigeria, CB Insights, Partech, FintechNGR, World Bank and a number of other sources.

- ## Primary research

  This comprised in-depth interviews with industry stakeholders across each of the key sub-sectors. The selected companies provided complete and diverse coverage of the FPS sector with both large organisations and Medium/Small Scale Enterprises covered. Deliberate effort was also put in place to ensure good interviewee sample size consisting of senior-level officers (CEOs and Directors) and mid-level officers (Department Heads and other Key Officers). A total of 42 interviews with respondents in 42 distinct organisations were carried out. See the Appendix for the list of organisations where our respondents work. The interview questions centred around, the state of the FPS sector as a whole and the sub-sector specifically; opportunities; challenges limiting growth; innovative solutions/policy drives; and other suggestions for improvements. Valuable insights were garnered from the exercise which formed the basis of challenges and improvement opportunities identified for each sub-sector.

This report was constrained by a lack of disaggregated data for the Financial and Professional Services sector and sub-sectors. A large amount of relevant data were lumped together with other economic sectors or did not exist all together. Data that were not available include up-to-date disaggregated FPS employment data per sub-sector, tax data broken down per sub-sector, GDP contribution per sub-sector, FPS export data and a few others. EnterpriseNGR is working with the National Bureau of Statistics with a view to collecting the relevant data and primary research work will also be carried out to ensure subsequent editions of this report present more complete data.

Summary of findings

The assets of Deposit Money Banks grew by

15.3%

to

₦62.9 TRILLION

representing 35.7% of national gross domestic product in 2021.

Following the pandemic-induced -1.9% contraction in the economy in 2020, Nigeria's economy enjoyed positive growth rate of 3.4% in 2021. The growth rate surpassed the 2.6% and 2.7% predictions made by the International Monetary Fund (IMF) and the World Bank, respectively. Historically, Nigeria's economy has been resilient in adverse conditions, most notably during the 2008 global financial crisis when GDP growth was sustained at 6.76%, the 2016 oil price-induced recession, and the recent pandemic-induced recession. The country has an uncanny knack for bouncing back.

This report analyses the supportive, facilitative and central role played by the FPS sector in supporting Nigeria's positive economic growth and demonstrates the importance of the sector to the economy.

Below is a summary of key performance highlights in 2021 for each FPS sub-sector. The summary also highlights key challenges that limit the potential of each sub-sector, providing useful insight into the areas needing attention.

1. Banking

Banking led other sub-sectors on many performance indicators and reached a record level with direct benefits to the economy and people. The assets of Deposit Money Banks grew by 15.3% to ₦62.9 trillion, representing 35.7% of national gross domestic product in 2021. Financial institutions, which are dominated by Deposit and Other Banks (including the Central Bank), Finance Companies, Discount Houses, and microfinance Banks, contributed 3.2% of GDP.

Based on 2020 data, Banks and Other Financial Institutions were the third-largest contributor to company income tax (CIT) receipts, valued at ₦96.4 billion, representing 12.2% of CIT receipts generated locally. Development in the Banking led to the expansion of services and products, and the establishment of new businesses, resulting in significant job creation. This was particularly so in Payments, with over 326,000 agents and many other unidentified retail outlets providing agency banking. The proliferation of agents is reflected in the number of point-of-sale (POS) terminals deployed: 915, 519 as of 2021.

Capital inflows have declined in recent times, from $9.7 billion in 2020 to $6.7 billion in 2021. However, the FPS sector led other sectors in capital importation, principally by banks, attracting 21.8% of imported capital. Nigeria led sub-Saharan African countries in diaspora remittances, receiving $19.2 billion compared to South Africa's $0.9 billion, Kenya's $3.7 billion and Ghana's $4.5 billion. Banks played a supportive role in remittance receipts as 2021 saw an 11.2% increase in remittances on the previous year. This was facilitated in part by the Central Bank of Nigeria's Naira-4-Dollar Scheme that encouraged the adoption of formal payment channels.

Banking enabled improved access to financial services through technology channels. The volume of cheque transactions fell to 4.5 million transactions valued at ₦3.2 trillion in 2021, down from 10.8 million transactions valued at ₦5.4 trillion in 2017. On the other hand, both the volume of electronic bill (e-bill) payments and mobile inter-scheme transactions grew exponentially by 32% and 5,455%, respectively, over the same period.

Notwithstanding the performance recorded, the Banking sub-sector is far behind its regional and global peers. Key challenges that must be addressed to facilitate future growth include shortage of talent, lack of incentives for patient capital, low coopetition, undercapitalisation and regulatory roadblocks, uneven growth, and low spread of innovation.

2. Insurance

Over seven years, 2015-2021, Nigeria's Insurance sub-sector recorded 113.1% growth in gross premium income. Premium income in 2021 grew 20% over the previous year to reach ₦616.6 billion in 2021. About 55% of the premium income received during the year was gross claims paid. This was significantly higher than 38% recorded in 2015. The ratio of gross premium income to gross claims suggests there is increasing appreciation of the need for insurance in the current business environment.

Based on the financials of 56 registered members of the Nigerian Insurers Association (NIA), the sub-sector had a total investment of ₦1.63 trillion in 2020; a 38.7% increase over the previous year, equivalent to 1.1% of GDP at current market prices. Meanwhile, the National Insurance Commission put the sub-sector's total assets at ₦2.2 trillion as of December 2021, which provides an indication of the sub-sector's potential to provide investible funds (long-term capital) to support economic activities.

The general low insurance penetration of 0.37 (measured by premiums as a percentage of GDP) reflects the sub-sector's challenges. Some of these, which require swift action to spur long-awaited growth, include unprofessional and corrupt practices, low levels of insurance literacy and awareness, poor collaboration and partnerships, weak regulatory environment and lack of support from operators, undercapitalisation, and low technology adoption.

3. Capital Markets

- Nigeria's Capital Markets have continued to develop despite investor confidence and participation remaining below the levels seen before the global financial crisis of 2007-2008. In 2021, the Nigerian Exchange Limited (NGX) (formerly the Nigerian Stock Exchange) saw total equity capital market (ECM) capitalisation reach ₦22.3 trillion ($51.3 billion) with 152 companies across 11 sectors listed. Also in 2021, the NASD OTC Securities Exchange recorded a market capitalisation of ₦629.03 billion, up from ₦525.95 billion in 2020, and, as of August 2022, comprised 43 companies. Meanwhile, FMDQ Securities Exchange turnover reached ₦198.9 trillion ($484.7 billion) in 2021.

- Promoting finance for capital projects, in 2021, NGX listed 86 FGN bonds, 14 State and Municipal bonds and 46 Corporate bonds, jointly valued at ₦19.7 trillion ($45.5 billion). In addition, FMDQ Securities Exchange listed 20 bonds/sukuk at ₦601.2 billion ($1.5 billion), quoted 66 commercial papers at ₦406.4 billion ($990.3 million) and registered 15 commercial paper programmes valued at ₦465 billion ($1.1 billion). Meanwhile, seven infrastructure funds worth ₦121.8 billion were registered by the Securities and Exchange Commission (SEC).
- Capital Markets are recognised for their potential to support capital inflows. Although Nigeria's capital inflows have dwindled in recent times, a large share of the inflows (approximately 12%) still passed through the market through portfolio investment in equities and bonds.
- The low market participation and NGX's position in the global market capitalisation ranking suggest more can be done to enable Capital Markets to compete more effectively. Challenges that need to be addressed include undercapitalisation of the market, low levels of innovation, low participation rates, low spread, regulatory roadblocks and disincentives, limited listing of securities, lack of process standardisation, low allocation of pension funds to equities, and macroeconomic policies.

4. Asset Management

Global asset management reached $112.3 trillion in total assets under management (AuM) in 2021. Locally, the Asset Management sub-sector in Nigeria already plays an important role, but there is also significant potential. To facilitate finance for business and capital projects, in the first three quarters of 2020, the sub-sector supported the issuance of new securities valued at ₦2.8 trillion. Thirty-three unit trust schemes valued at ₦10.3 trillion and $86.4 million (dollar/eurobond funds) were registered with the SEC in 2021, and 19 companies received approval to issue corporate bonds valued at ₦369.8 billion. Mutual funds' AuM were more than ₦1.2 trillion. There were 120 mutual funds in the market, including equity-based funds, money market funds, bond/fixed income funds, dollar funds, real estate funds, mixed funds, ethical funds, and

Sharia-compliant funds.

As at 2021, ten private equity funds in Nigeria had committed ₦65 billion. Retail investors' participation increased to 40% in 2021 compared to 20% in 2016. Despite this increase, only 5.7 million retail investors traded in the capital markets as of August 2022.

While the Asset Management sub-sector has great potential, it is challenged by low levels of innovation, the influx of unregulated operators, low participation rates, difficulties in the onboarding process, poor integration of financial services, talent shortages, low product diversification, and non-availability of data and low use of research.

Pension fund assets under management grew by **3.7%** to **₦13.4 trillion.** The value of pension fund assets is equivalent to **7.6% of GDP** at current market prices.

5. Pensions

Nigeria's Pensions sub-sector is a key segment of the economy that is delivering benefits to retirees, employers and governments. The sub-sector helps lower tax loads, protects and provides returns on employee retirement savings, reduces employers' retirement burden, and provides long-term investment funds. With 9,586,291 pension contributors as of December 2021, the total pension fund assets under management grew by 3.7% to ₦13.4 trillion. The value of pension fund assets is equivalent to 7.6% of GDP at current market prices. About 66% of pension fund assets are FGN and corporate debt securities, demonstrating the contribution of the Pensions sub-sector to government finance for national and development projects.

Until now, the sub-sector has paid ₦809.5 billion in lump sum benefits and a cumulative ₦12.8 billion monthly pension to retirees.

Reforms in the pension sub-sector have accelerated transformation, but more is required to increase growth. Specific challenges include persistent scepticism about the pension system, low diversification of pension fund investments away from government securities, low cooperation from employers in the public and private sectors, low pension penetration in the informal sector, limited investment options and mono products, long regulatory processes hampering service delivery, and poor macroeconomic environment.

6. Non-interest Finance

Non-interest finance and ethical investment are gaining prominence globally, including in Nigeria. Nigeria's Non-interest Finance players include three Non-interest Banks and four Takaful Insurance firms. Other participants in the market include Non-Interest Window Banks and Non-interest Microfinance Banks.

Four FinTech unicorns in the country.

A record high **$1.3 BILLION** investment was attracted by FinTechs in 2021.

In 2021, the assets of Non-interest Banks reached ₦448.1 billion, from ₦300.2 billion in 2020. The banks facilitated ₦188.1 billion worth of loans. The six Sharia-compliant mutual funds listed on the market in 2021 accumulated ₦17.4 billion in total investment from 17,353 unit holders, up from a total investment under ₦2.5 billion and 15,625 unit holders in 2019. We are seeing non-interest finance broadening inclusion and empowering more people to borrow and invest.

The enormous potential of non-interest finance in Nigeria can be realised by addressing the insufficient awareness, slow pace of financial innovations, lack of short-term instruments and high frequency of issuance of instruments, low level of planning for talent pipeline, and low level of collaboration.

7. FinTech

Nigeria's FinTech ecosystem has undergone rapid evolution. The number of FinTech firms has grown from just a few (such as Systems Spec, Interswitch, and eTranzact) in the 1990s and early 2000s to 210-250 in 2021. Payments, insurance, credit, investment, and support services such as know your client (KYC) and digital identity are some early use cases. In recent times, the penetration of cryptocurrencies and blockchain technologies has added another layer of services to the FinTech ecosystem.

Following the global pandemic-induced shock that brought the FinTech sub-sector's (in this case, financial inclusion-focused-only tech companies) equity funding to $134.6 million in 2020, down from $463.1 million in 2019, funding bounced back in 2021 to a record high $1.3 billion. Nigeria leads Africa not only in FinTech but also in tech venture capital (VC) investment in general. FinTech attracted 73% of total tech VC investment in the country, while other areas, including e-commerce, healthtech, edtech, enterprise, entertainment, logistictech, and insurtech, were responsible for the remaining 27%. The upward trend in funding resulted in the emergence of four indigenous unicorns (Interswitch, Chipper Cash, Flutterwave and Opay). In 2021, Nigeria accounted for 164 innovation hubs out of 1,031 in Africa. This suggests that the country is an emerging hotspot for FinTech start-ups.

By supporting growth in digital payments, FinTech companies are making an important contribution to the national effort to drive financial inclusion. In 2021, total spending via e-bills and mobile inter-scheme transactions grew significantly by 53.2% and 164.5%, respectively.

While the potential of FinTech is enormous, it is still in its nascent stages and challenges in the operating environment must be addressed to facilitate growth. These include, but are not limited to weak interoperability and lack of common data source, shortage of talent, slow pace of regulation, inadequate patient capital, data privacy and security challenges, poor understanding of user experience, and shortage of funding.

8. Professional Services

Besides the Big Four auditing firms (Deloitte, EY, KPMG and PwC), there is a growing number of firms in Consulting, Accounting and Legal Services, which are making increasingly important contributions to the economy and helping to meet the support services needs of businesses across all sectors of the economy. As of June 2022, there were 21,917 registered members of the Institute of Chartered Accountants of Nigeria (ICAN) and over 120,000 registered legal practitioners. Records from the Securities and Exchange Commission show 166 reporting accountants/auditors and 376 solicitors registered as market operators to provide support services in the capital markets specifically.

Directly and indirectly, the Professional Services sub-sector contributes significantly to national income and government tax receipts. While disaggregated data is not available, according to the National Bureau of Statistics, the Professional, Scientific and Technical Services sector, of which Professional Services is a sub-sector, contributed 3.2% (₦2.346 trillion) of GDP in 2021. The sector's contribution to company income tax receipts in the last two quarters of 2021 was approximately 2.0% (₦9.3 billion) and it paid value-added tax to the value of ₦13.1 billion.

The Professional Services sub-sector is an important driver of economic growth and the country can benefit further by addressing the difficulties it faces. These include lack of central coordination, shortage of talent, lack of national support, low adoption of technology, low value placed on professional services, and corrupt practices and influx of unprofessional service providers.

9. Sustainable Finance

Globally, there is heightened interest among investors to achieve sustainability mandates. Governments seek to promote the UN's Sustainable Development Goals (SDGs) and fulfil commitments to COP21 Nationally Determined Contributions by linking investments to clean energy, clean water, and a circular economy. The value of sustainability-themed investment products on global capital markets was estimated at $3.2 trillion as of 2020.

Nigeria's green finance market is evolving and there are many growth opportunities. As of December 2021, Nigeria's green bond market was valued at ₦55.52 billion, according to the Nigerian Exchange Group. Up until 2021, two FGN sovereign green bonds valued at ₦25.69 billion were issued, and the rest were corporate green/infrastructure bonds.

The global green finance market is growing fast, receiving support from governments, business leaders and notable investors. Nigeria must position itself to attract some of the significant amount of global sustainability themed funding in the market. To do this, significant effort is required from all stakeholders working collectively to address current roadblocks, which include the insufficient green project pipeline, oil and gas dependent economy, limited supply of sustainable finance, foreign exchange risk exposure, and lack of knowledge.

Conclusion

The performance of the FPS sub-sectors in 2021 demonstrates the pivotal role of FPS in Nigeria's economy, particularly its contributions to governments, businesses and people. Notwithstanding this, FPS' potential contributions are enormous and will only be realised through the collective effort of all stakeholders and by prioritising resources to address each challenge area. To smooth out the uneven growth prevalent in FPS, a common vision for the development of the sector needs to be developed and adequate consideration given to resolving identified issues in all sub-sectors. Furthermore, synergies and linkages across the sub-sectors should be explored and leveraged to spur overall growth of the sector.

Many of the challenges identified are long-standing and require immediate action. Unfortunately, the global oil price hike, inflationary pressures and rising interest rates are creating strong headwinds — which add new layers to the existing sub-sectoral issues. In addition, local challenges such as security, unemployment and emigration of talent are exacerbating the situation for all economic sectors, including the FPS sector. Regulators, operators, business leaders and investors in FPS therefore immediately need to chart a new and sustainable path for the development of the FPS sector. EnterpriseNGR is confident that with all stakeholders working together, our vision of making Nigeria the premier financial services centre in Africa can be achieved.

Supporting growth and the economy

Supporting businesses and livelihoods

Conclusion

1.0

Banking

KEY FACTS

Total assets of the banking sector was

₦62.9 trillion

at the end of 2021

4,066

Total number of operators

₦96.4 billion

in company income tax (CIT).

95,026

staff in Deposit Money Banks in 2020

874,704

people were employed in the Banking and Insurance sector combined in 2017

915,519

point-of-sale (POS) terminals deployed in 2021

5,353

branches

$949.8 million

was contributed by financial and insurance sectors to service exports

Net domestic credit hit an all-time high of

₦57.3 trillion

in June 2022

45%

of adult Nigerians were banked in 2021

The banking system is essential to the growth and development of every economy. It plays a critical role in supporting commerce and innovation by providing a wide range of financial services, ranging from payments, credit, and savings to investment, insurance, and pensions.

Over the years, banking reforms have improved its efficiency, which have contributed to it outperforming other FPS sub-sectors. According to the World Bank,[1] 45% of Nigerian adults now have a bank account, 16% more than a decade ago when only 30% of adults were banked. Despite this improvement in banking penetration, there is still vast room for improvement as over half (55%) of the adult population remains unbanked. However, it is important to note that with the growing adoption of electronic banking in its many forms, agency banking as well as new FinTech services, banking accessibility and penetration will likely remain on an upward trend.

According to the World Bank Findex Database 2021,

45%

of Nigerian adults have a bank account

The Central Bank of Nigeria (CBN) reports total assets of the Banking sub-sector were ₦62.9 trillion at the end of 2021, a 15.2% improvement on the ₦54.6 trillion recorded in 2020. This reflects the increasing penetration of the sub-sector.

Nigeria's Banking sub-sector comprises the CBN as the apex regulator, Development

[1] The World Bank, 'The Global Findex Database 2021', (07 August 2022), available at: https://www.worldbank.org/en/publication/globalfindex/Report

Finance Institutions (six operators), Bureau De Changes (2,991 operators), Primary Mortgage Banks (34 operators), Micro-Finance Banks (887 operators), Merchant Banks (six operators), Non-interest Banks (three operators) Deposit Money Banks (24 operators), Finance Companies (106 operators), Holding Companies (six operators) and Payment Services Banks (three operators).[2] The sub-sector is regulated by the Banking and Other Financial Institutions Act 2020 (BOFIA 2020). While there are a number of international operators in the Nigerian Banking sub-sector, most of the Tier 1 banks in Nigeria are home-grown institutions with service delivery levels comparable to their global peers.

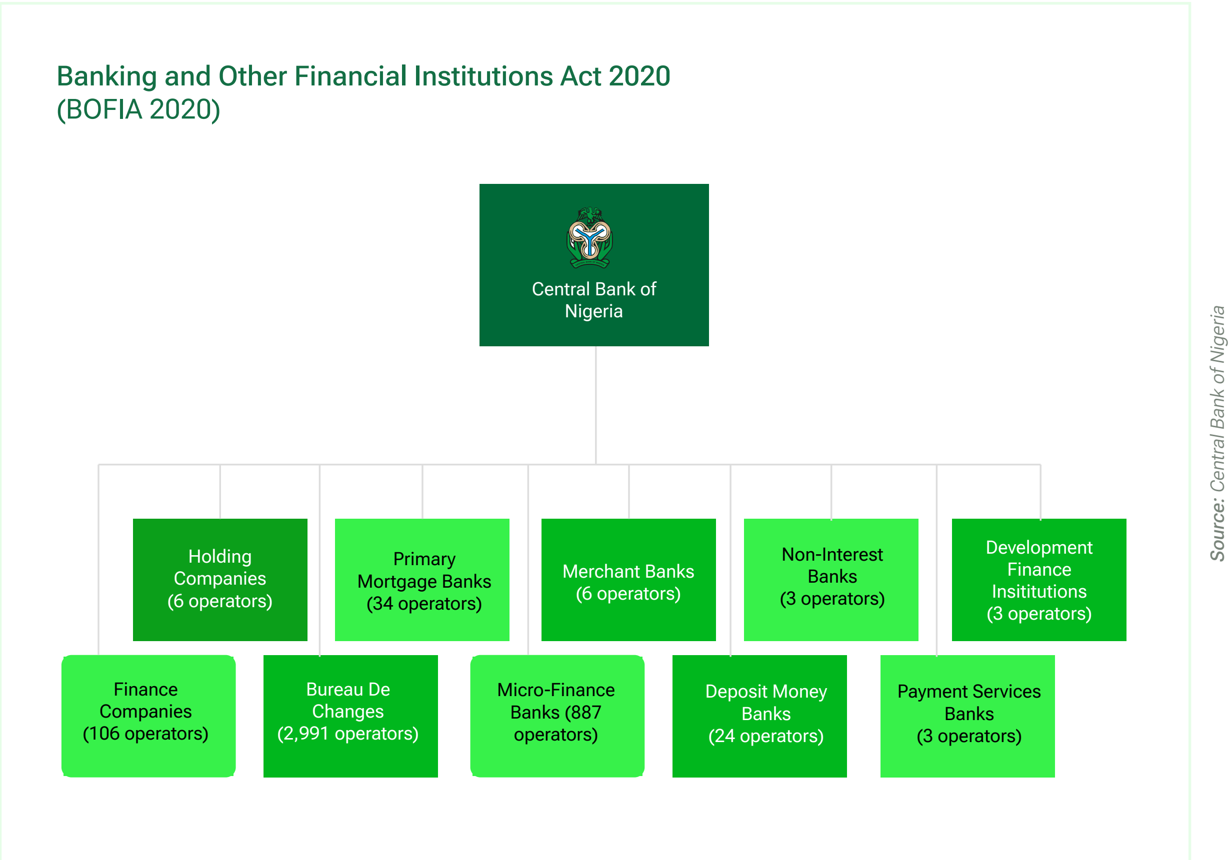


Figure 1: Banking and Other Financial Institutions

[2] Central Bank of Nigeria, 'Financial Institutions', (07 August 2022), available at: https://www.cbn.gov.ng/supervision/finstitutions.asp

This section highlights the Banking sub-sector's current impact and potential to accelerate economic growth. Banking contributes to tax receipts and employment, and facilitates service exports and capital importation. To support businesses and livelihoods, the sub-sector helps consumers meet daily financial aspirations, narrows financial inclusion gaps, and enables safe investment. It is also at the forefront of digitalising the Nigerian economy with widespread initiatives aimed at encouraging adoption of online banking and agency banking solutions.

1.1 Supporting growth and the economy

Contributing to national output

Nigeria's financial institutions make significant contributions to national output. The institutions[3] added ₦2.3 trillion to national GDP in 2021.[4] This represents 3.2% of national output for the year, slightly more than the ₦2.1 trillion, or 3.0%, recorded in 2020. This implies that the sector contributed approximately ₦3 out of every ₦100 generated nationally. For a moderately represented sector by number of actors, and with a share of employment somewhere below 1.3%[5], this contribution is by no means inconsequential.

Financial institutions added

₦2.3

TRILLION

to the national GDP in 2021.

[3] According to the National Bureau of Statistics framework, financial institutions are deposit and other banks, finance companies, discount houses, Central Bank of Nigeria, bureau de change, microfinance banks, mortgage banks, money lenders, exchanges and financial brokers

[4] National Bureau of Statistics, 'National Gross Domestic Product Q4 2021', (23 August 2022), available at: https://nigerianstat.gov.ng/elibrary/read/1241137

[5] National Bureau of Statistics, 'Labor Force Statistics Vol. 2: Employment by sector Report (Q3 2017)', (28 January 2022), available at: https://nigerianstat.gov.ng/elibrary/read/711

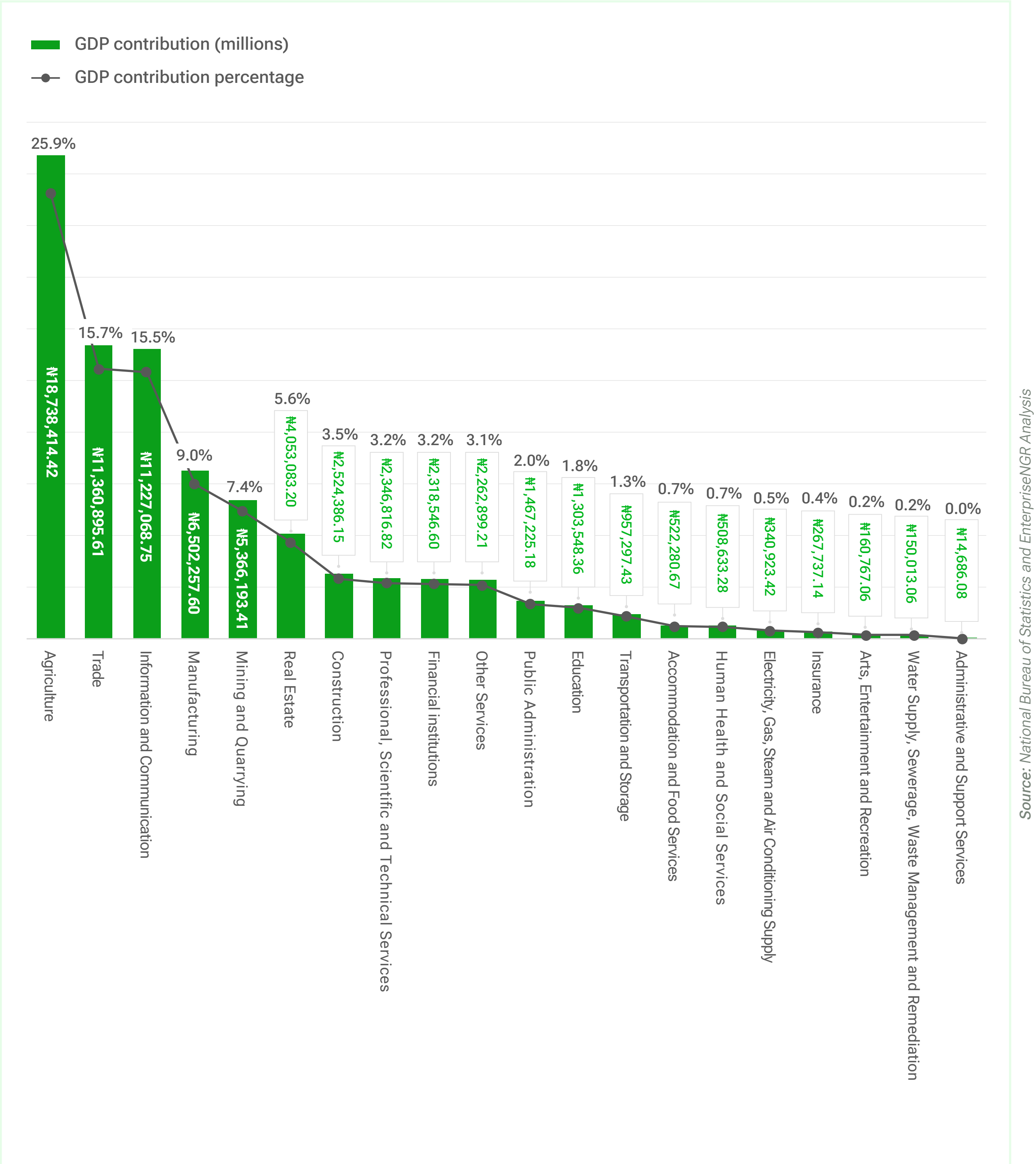


Figure 2: GDP contribution by sector, 2021*

* GDP at 2010 constant prices

As at 2021, the assets of Deposit Money Banks (also known as Other Depository Corporations)[6] were valued at ₦62.9 trillion, representing 35.7% of national gross domestic product. The growth in assets between 2015 and 2020 was 93.3%: from ₦28.2 trillion to ₦54.6 trillion (Figure 3).[7] Growth of 15.3% over the previous year was recorded in 2021. With its vast assets and high growth potential, the Banking sub-sector remains an important growth catalyst for the economy.

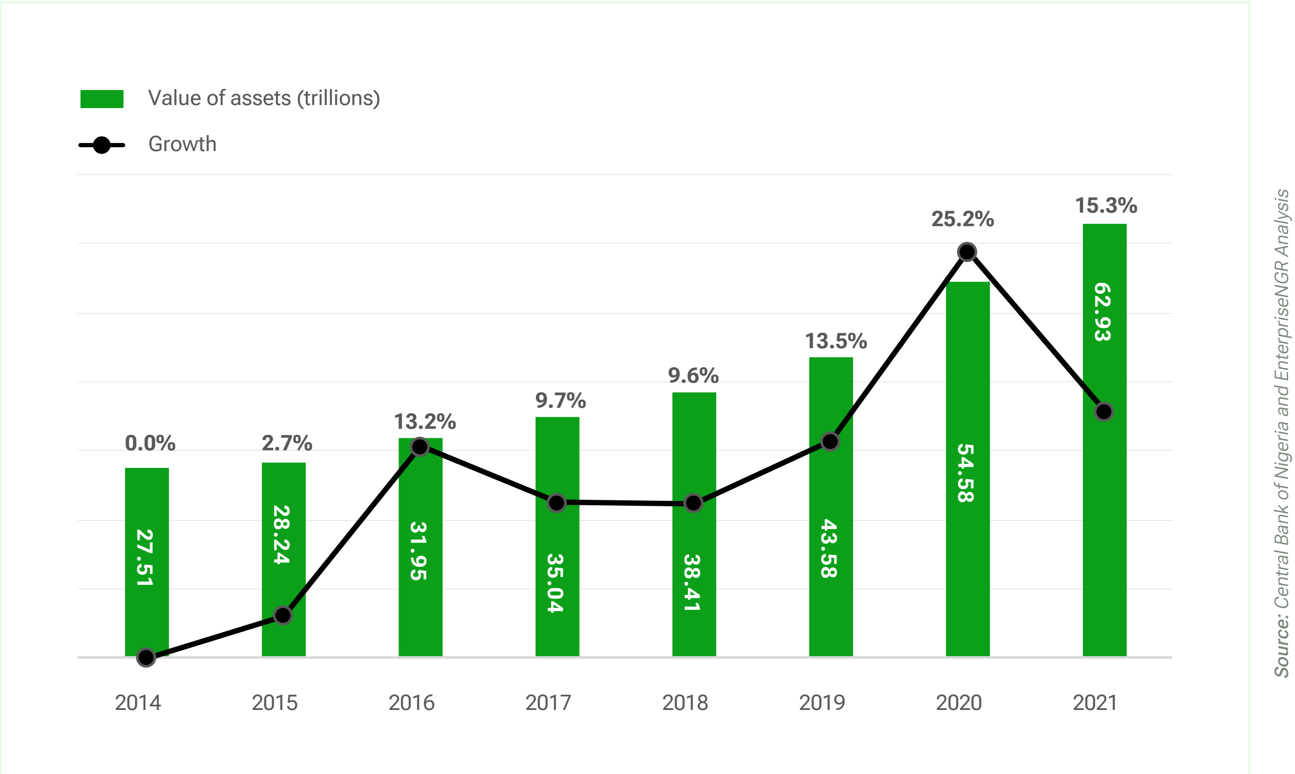


Figure 3: Asset value of Deposit Money Banks, 2021

[6] Based on the Central Bank of Nigeria's adoption of IMF's Standardized Report Form, beginning 2007

[7] Central Bank of Nigeria, '2021 Statistical Bulletin: Financial Statistics', (02 July 2022), available at: https://www.cbn.gov.ng/documents/statbulletin.asp

Contributing to tax revenue

Banks and Other Financial Institutions are collectively the third-largest generator of company income tax (CIT) receipts, trailing only the Information and Communication, and Manufacturing sectors. In 2020, they paid ₦96.4 billion in CIT.[8] This represents 12.2% of ₦790.6 billion total CIT receipts collected locally by the Federal Government during the year. During the same period, the sub-sector generated ₦25 billion in value-added tax (VAT), and by 2021 VAT amounted to ₦62 billion.[9]

These tax receipts mirror the collective value of financial transactions enabled by financial services providers.

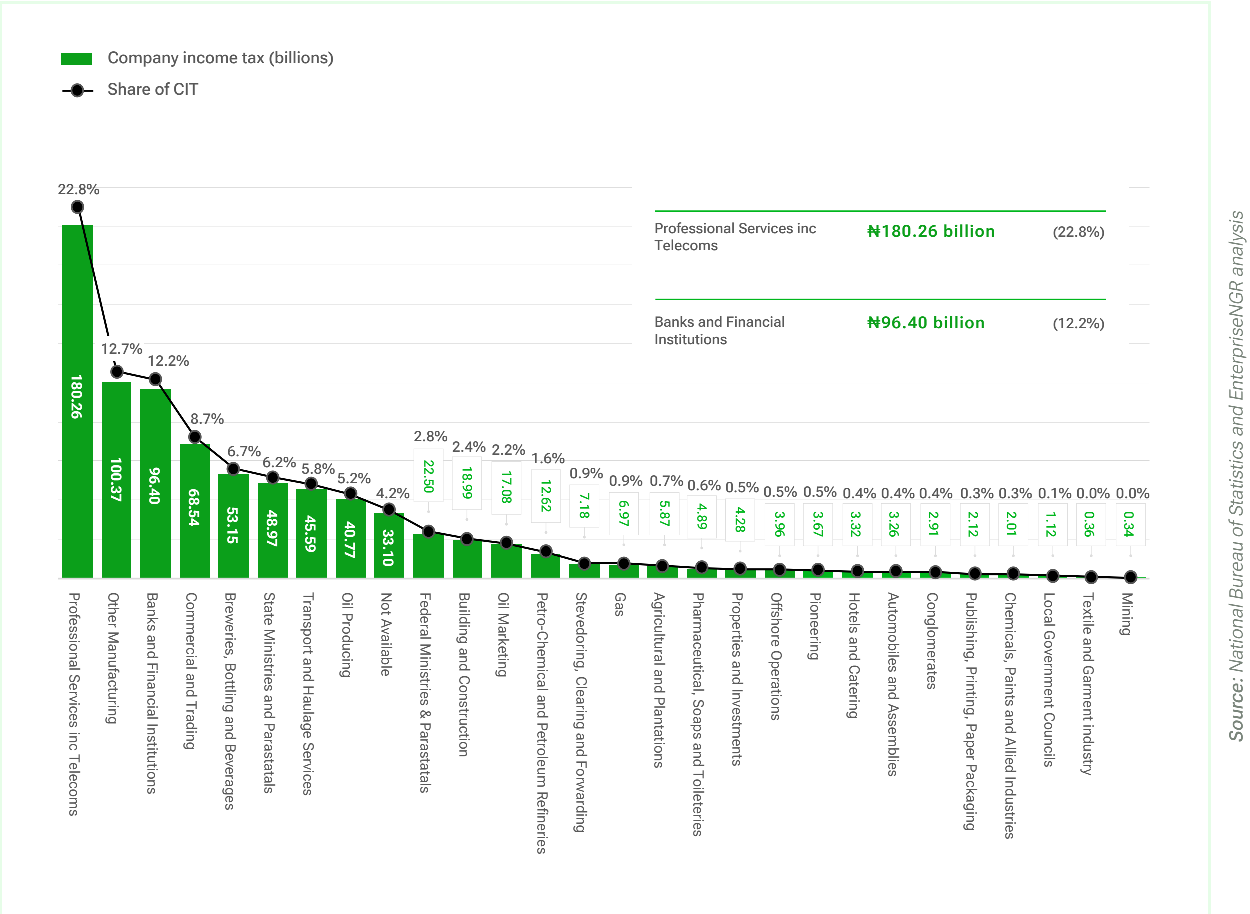


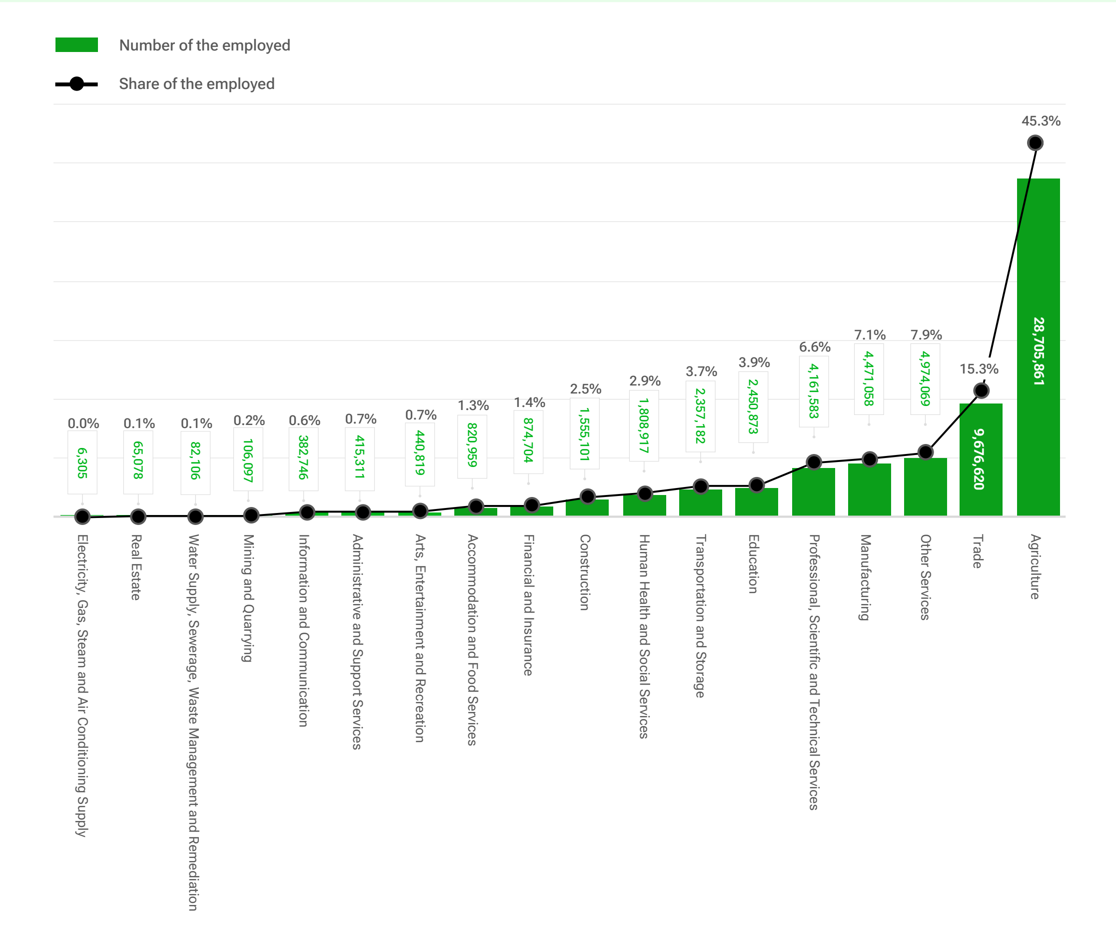
Figure 4: Company income tax receipts by sector, 2020

[8] National Bureau of Statistics, 'Company Income Tax by Sector Q2 2021', (23 August 2022), available at: https://nigerianstat.gov.ng/elibrary/read/1241054

[9] National Bureau of Statistics, 'Sectorial Distribution of Value Added Tax Q4 2021', (09 August 2022), available at: https://nigerianstat.gov.ng/elibrary/read/1241155

Contributing to employment generation

According to the National Bureau of Statistics (NBS), 874,704 people were employed in the Banking and Insurance sub-sectors (as jointly reported)[10] in the third quarter of 2017,[11] the most recent period for which data is available. Current developments in Financial Services have seen the expansion of services/products offered and establishment of new businesses. These include the rapid growth of financial services retail outlets/agents that provide agency banking, bill payments, cash deposits and cash withdrawals, as well as making funds transfers to third parties on behalf of customers. The Shared Agent Network Expansion Facilities (SANEF) recorded 326,444 agents as at May 2020,[12] and there are many other independent agents spread across the country.



***Source:** National Bureau of Statistics and EnterpriseNGR analysis*

Figure 5: Employment distribution by sector, 2017

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[10] Those that worked for pay/wages and in self-employment

[11] see footnote 5 above

[12] Central Bank of Nigeria, Financial Inclusion Newsletter, 2nd Quarter June 2020, (June 2022), p.3, available at: https:/www.cbn.gov.ng/out/2020/ccd/2rd%20quarter%202020%20financial%20inclusion%20newsletter.pdf

Deposit Money Banks, specifically Commercial Banks, Non-Interest Banks and Merchant Banks, employed 95,026 staff in 2020[13] across 5,353 branches nationwide.[14] They also have a growing network of registered banking agents in a number of locations. These process payment and deposit transactions for banks' clients, thereby making financial services more accessible. The proliferation of agents is reflected in the number of point-of-sale (POS) terminals deployed, which grew from 155,462 in 2017 to 915,519 in 2021,[15] an approximately 489.0% increase over the four-year period.

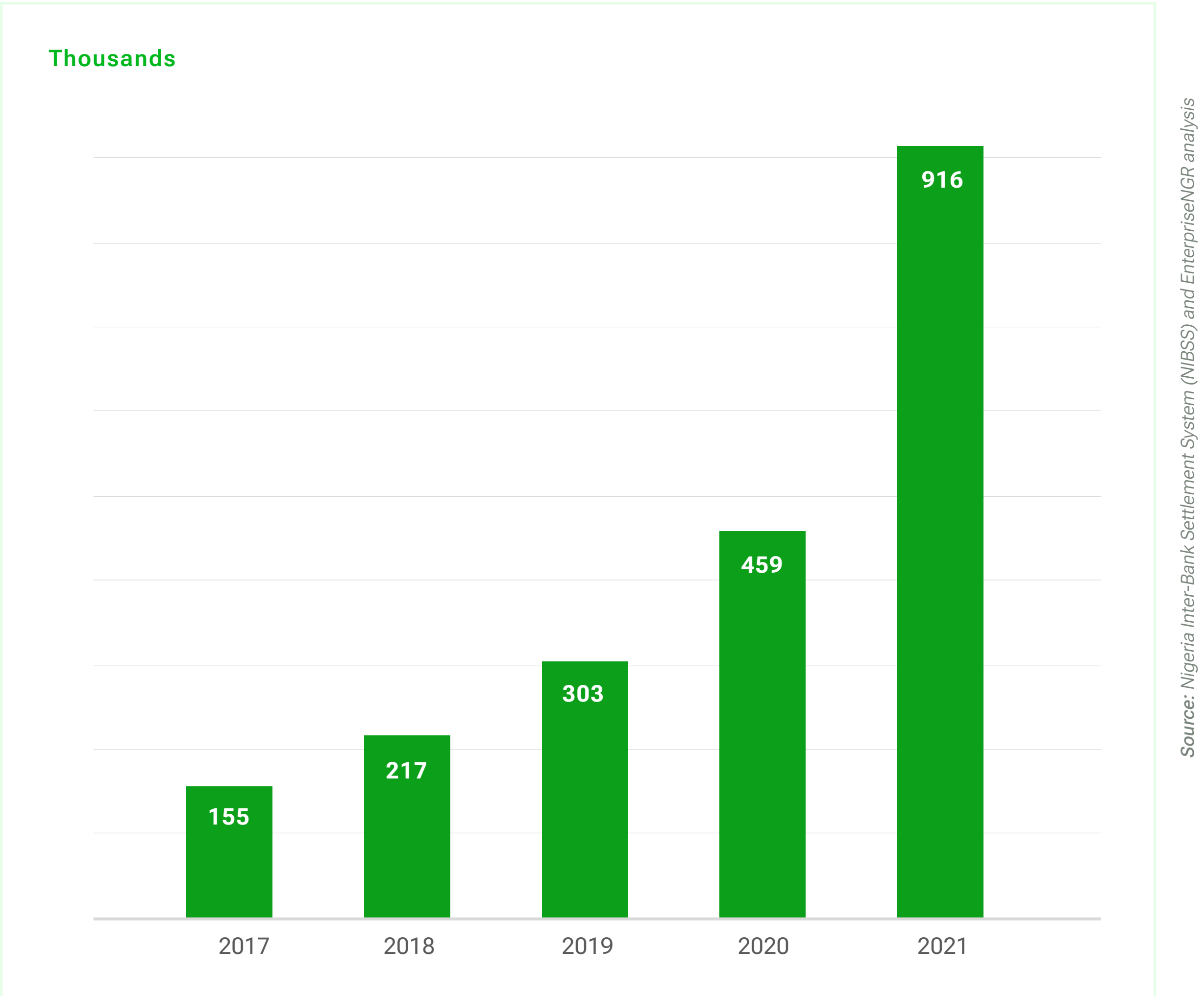


Figure 6: Point-of-sale terminals deployed, 2017-2021

This exceptional growth demonstrates the significant contribution the Banking sub-sector has been making to employment generation, directly and indirectly.

[13] National Bureau of Statistics, 'Selected Banking Sector Data: Sectorial Breakdown of Credit, ePayment Channels and Staff Strength (Q4 2020)', (June 2022), available at: https://nigerianstat.gov.ng/elibrary/read/1241018

[14] Central Bank of Nigeria, '2020 Statistical Bulletin: Financial Statistics', (June 2022), available at https://www.cbn.gov.ng/documents/statbulletin.asp

[15] Nigeria Inter-Bank Settlement System, 'Industry Statistics: Point of Sale', (June 2022), available at: https://nibss-plc.com.ng/dashboard/istat/point-of-sale#

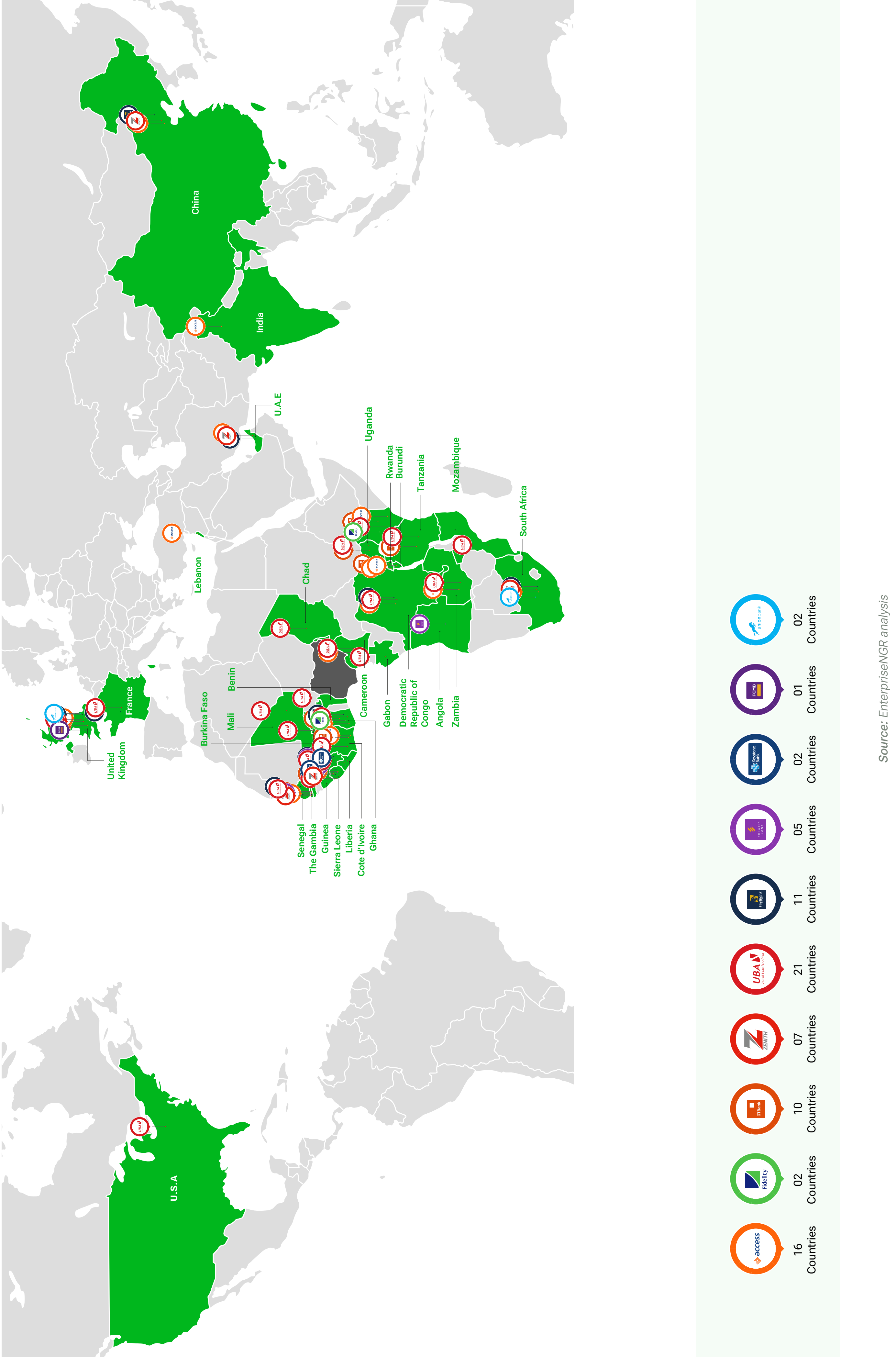


Figure 7: Global footprint of Nigerian banks

Source: EnterpriseNGR analysis

Nigeria's Financial Services sector is a major driver of the country's exports and imports, and the Banking sub-sector is a key contributor. Based on the joint sector data, the Financial and Insurance sub-sectors contributed $949.8 million to service exports in 2020, 23.8% of the total. This was a significant improvement over the 16.3% recorded in the previous year (Figure 8).[16] This upward trajectory has been maintained since 2017 and reflects growing demand for financial and insurance products and services as Nigeria's Financial Services players continue to penetrate foreign markets.

To complement growing exports, the Financial Services sector also reduced its share of service imports from 9.0% in 2016 to 7.4% in 2017 and 6.4% in 2020.[17] This trend bears out the continuing trust and reliance on home-grown financial services and products by Nigerians.

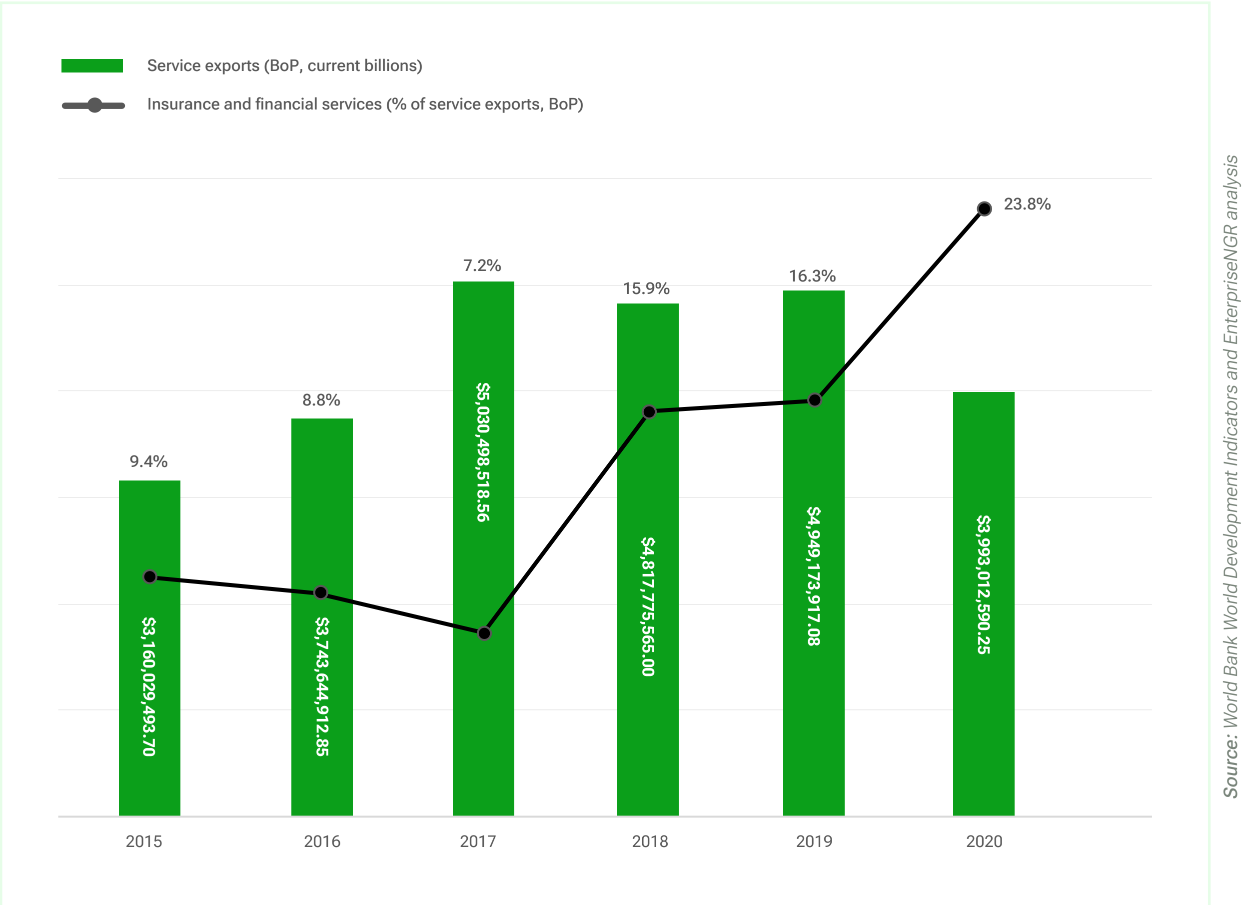
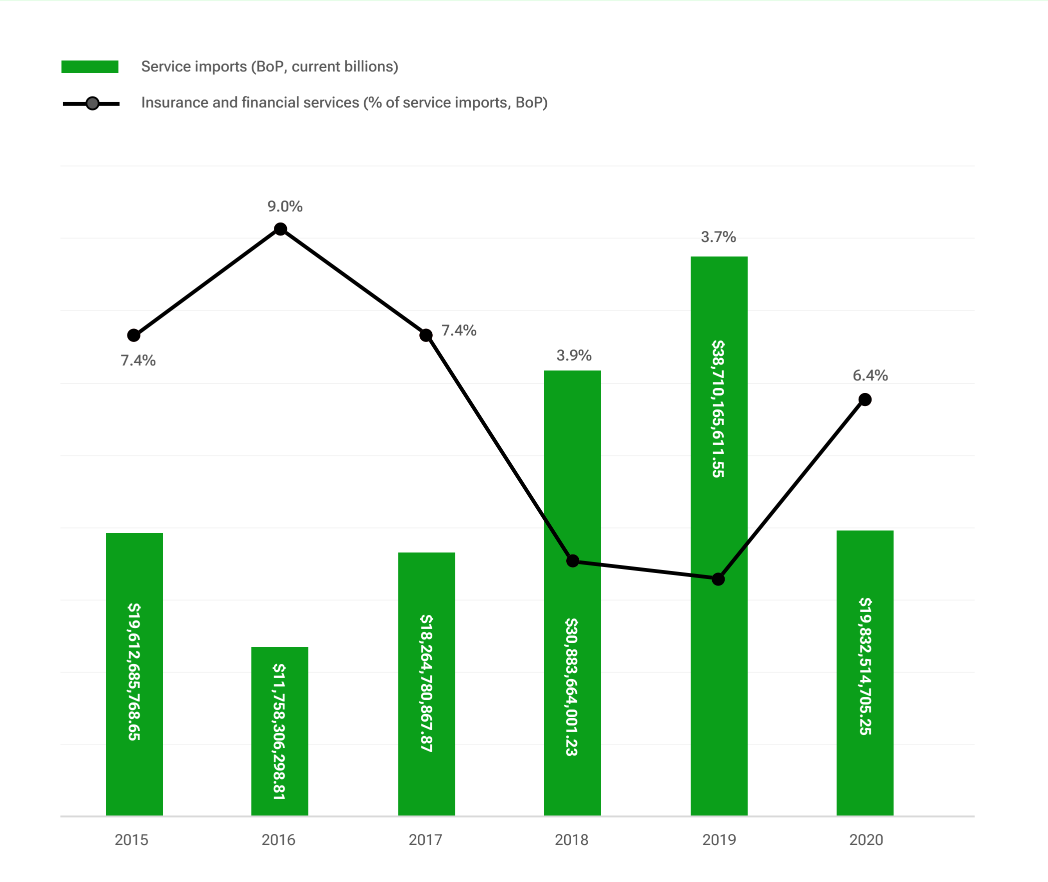


Figure 8: Service exports and insurance and financial services share, 2015-2020

[16] The World Bank, 'World Development Indicators', (August 2022), available at: https://databank.worldbank.org/source/world-development-indicators#

[17] See footnote 16 above



Source: World Bank World Development Indicators and EnterpriseNGR analysis

Figure 8: Service imports and share of insurance and financial services, 2015-2020

Receiving large shares of capital importation

Nigeria received record levels of capital inflows in 2018 ($16.8 billion) and 2019 ($22.9 billion). This, however, dipped to $9.7 billion and $6.7 billion in 2020 and 2021,[18] respectively as a result of the global pandemic. Nigeria's FPS sector leads other sectors in capital importation and in 2021 received a disproportionate share through banking (21.8%), financing (11.7%) and equities (16.3%) (Figure 9).[19] The combined value of capital imported by the sector amounted to $3.3 billion, almost half (49.8%) of total national capital importation in 2021.

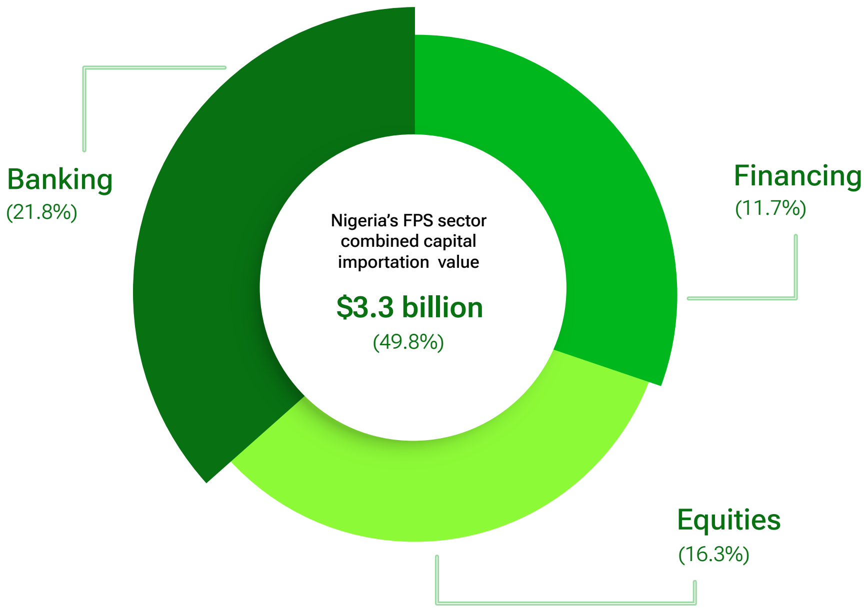
[18] National Bureau of Statistics, 'Nigerian Capital Importation Q4 2021', (27 June 2022), available at: https://nigerianstat.gov.ng/elibrary/read/1241154
[19] See footnote 18 above.

Nigeria received record levels of capital inflows

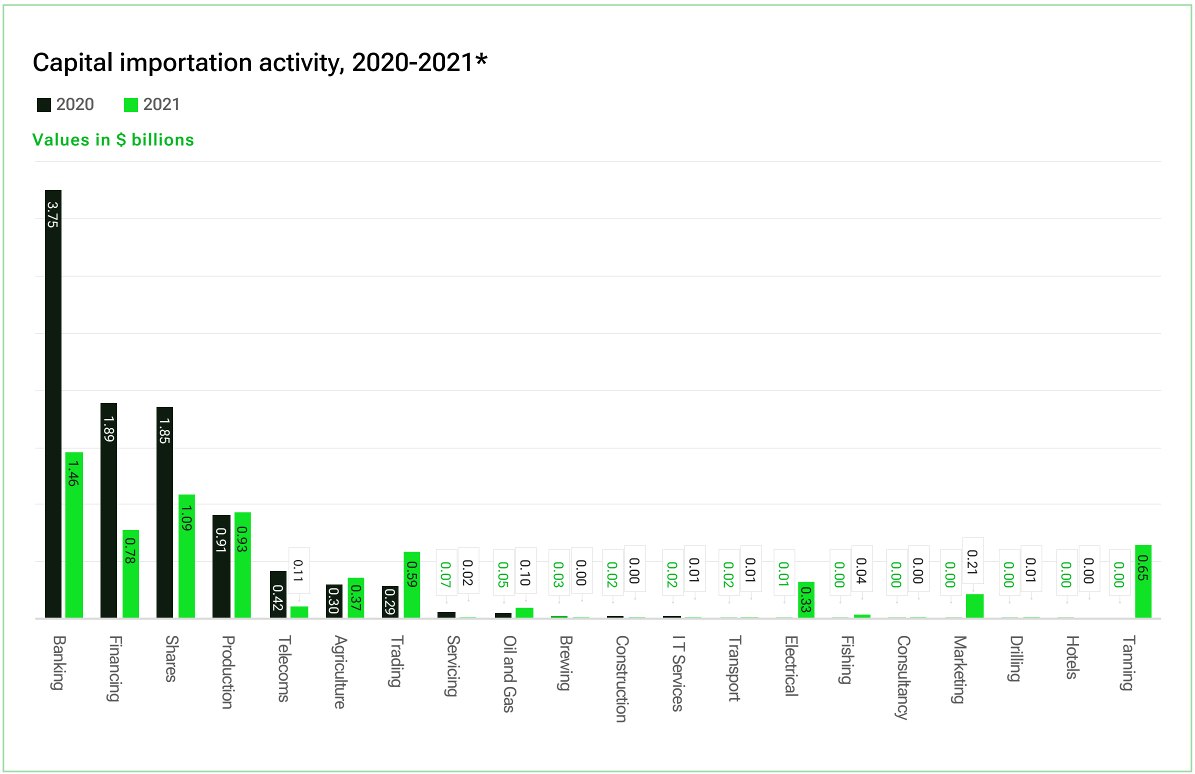
in 2018	in 2019
$16.8 billion	$22.9 billion

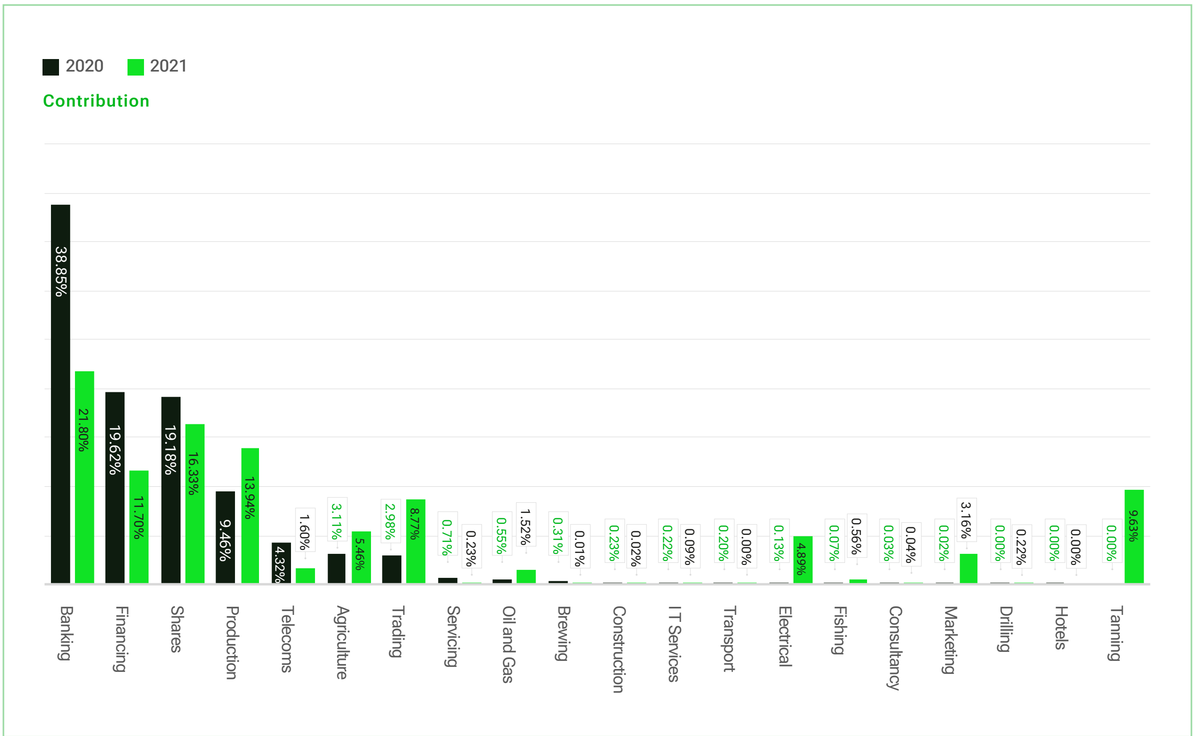
Capital inflows dipped as a result of the global pandemic to

2020	2021
$9.7 billion	$6.7 billion



Source: National Bureau of Statistics and EnterpriseNGR analysis





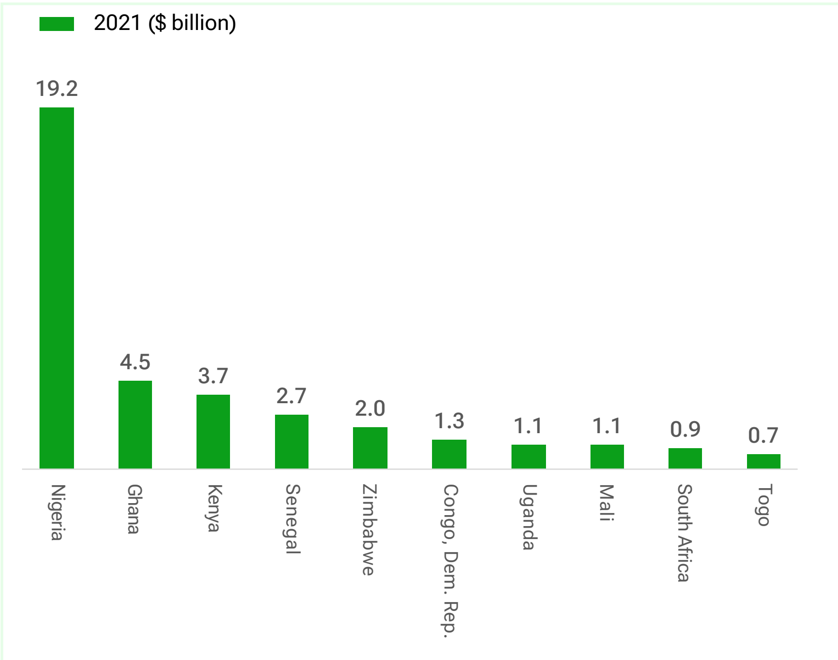
Source: National Bureau of Statistics and EnterpriseNGR analysis

Figure 9: Capital importation activity, 2020-2021*

* Data on FDI, portfolio investment and other investments that constitute capital importation are not reported by sector but by activity.

Supporting the flow of diaspora remittances

Remittances are critical to the Nigerian economy and the Banking sub-sector is helping to facilitate its seamless flow. A large population of Nigerians in the diaspora send money back home for various purposes via official and non-official channels. In 2021, Nigeria recorded remittances of $19.2 billion. Nigeria dominates the region in terms of remittance receipts, having historically accounted for a half of sub-Saharan inflows (Figure 10).[20] The 2021 remittance receipts represented an 11.2% increase on the previous year. This increase was facilitated by the Central Bank of Nigeria's Naira-4-Dollar Scheme, which was put in place to encourage increased adoption of official payment channels. The intervention was necessitated by a 28% decline in remittances in 2020 from its all-time high of $24 billion in 2018.[21] This decline was partly due to the Covid-19 pandemic as well as the fact that money senders avoided official channels as some FinTech solutions became shut out of the system and the cost of money transfers became prohibitive.



Source: National Bureau of Statistics and EnterpriseNGR analysis

Figure 10: Top remittance recipients in sub-Saharan Africa, 2021

Policy directives need to continue encouraging remittance flows to the country via official channels given their importance.

[20] International Bank for Reconstruction and Development/The World Bank, 'A War in A Pandemic: Implications of the Ukraine crisis and COVID-19 on global governance of migration and remittance flows', (26 August 2022), available at: https://www.knomad.org/sites/default/files/2022-05/Migration%20and%20Development%20Brief%2036_May%202022_0.pdf

[21] See footnote 20 above

1.2 Supporting businesses and livelihoods

Helping consumers meet everyday financial services needs

The Banking sub-sector has effectively leveraged technology to improve the ease of access to, and efficiency of its services while reducing transaction costs. Those with access to a bank account can now transact in real time, including paying for goods and services, receiving payments, transferring money to friends and relatives, accessing and receiving credit, and accessing and contributing to insurance and pension policies. The Nigeria Inter-Bank Settlement System's (NIBSS) annual statistics report[22] shows 35.4 million unique accounts completed instant payment transactions in 2020. This is about six million more payment transactions than in 2019. In addition, 60.6 million unique accounts received funds via an instant payment transaction in 2020, 6.9 million more transactions than in 2019.

In 2021, Nigeria's financial institutions processed approximately 1.2 million electronic e-bill payment transactions valued at ₦2.3 trillion, slightly more than the one million transactions valued at ₦1.5 trillion processed in 2020. Interestingly, in the last two years (2020 and 2021), although the volume of transactions did not increase significantly, their value was more than double pre-2020 estimates (Figure11).[23] This increase in the value of transactions is indicative of the 'new normal' as consumers increasingly embrace digital/online modes of payment to settle bills, ranging from school fees to utility expenses, and to carry out a wide range of other household and business transactions.

Net domestic credit hitting an all-time high of **₦60.0 TRILLION** in July 2022, according to the CBN.

Access to credit has also significantly improved with net domestic credit hitting an all-time high of ₦60.0 trillion in July 2022, according to the CBN. This figure comprises ₦39.9 trillion credit to the private sector and of ₦20.1 trillion credit to government.[24] The Banking sub-sector is actively playing its capital formation role and providing necessary capital to support both businesses and government.

[22] Nigeria Inter-Bank Settlement System, 'Instant Payments - 2020 Annual Statistics (3rd edition)', (June 2022), available at: https://nibss-plc.com.ng/media/PDFs/post/NIBSSInsight_3rd%20Edition.pdf

[23] Nigeria Inter-Bank Settlement System, 'Industry Statistics: E-BillsPay', (17 February 2022), available at: https://nibss-plc.com.ng/dashboard/istat/e-0?task=e-0

[24] Central Bank of Nigeria, 'Money and Credit Statistics', (29 August 2021), available at: https://www.cbn.gov.ng/rates/mnycredit.asp?year=2022

Consumer credit outstanding in Nigeria increased to ₦2.3 trillion in April 2022, the highest year on year. This figure accounts for 9.3% of total credit to the private sector[25] and is evidence of growing confidence in the economy. There is, however, a need to significantly improve consumer lending given the effect it has on aggregate demand and the corresponding multiplier effect on the economy.

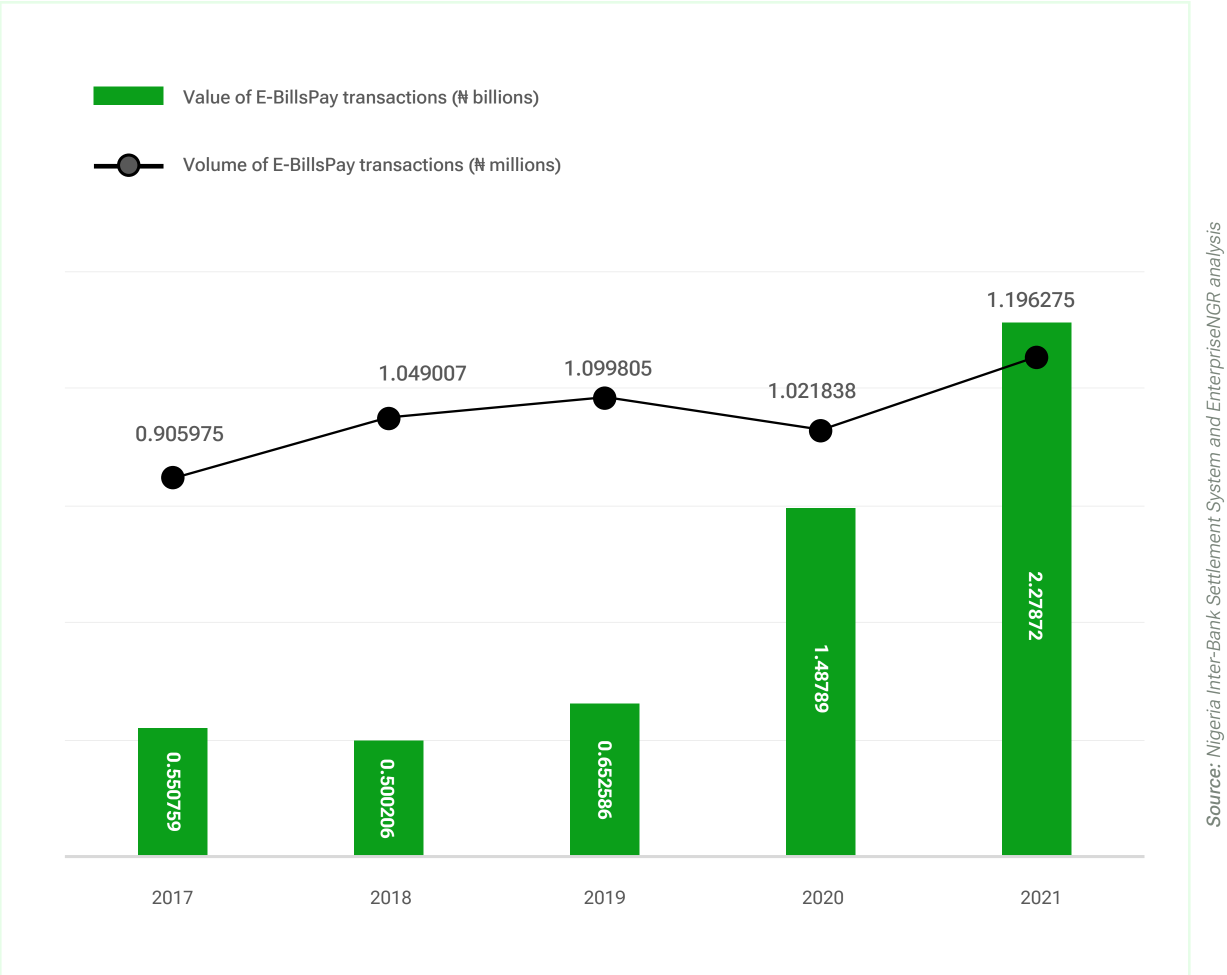
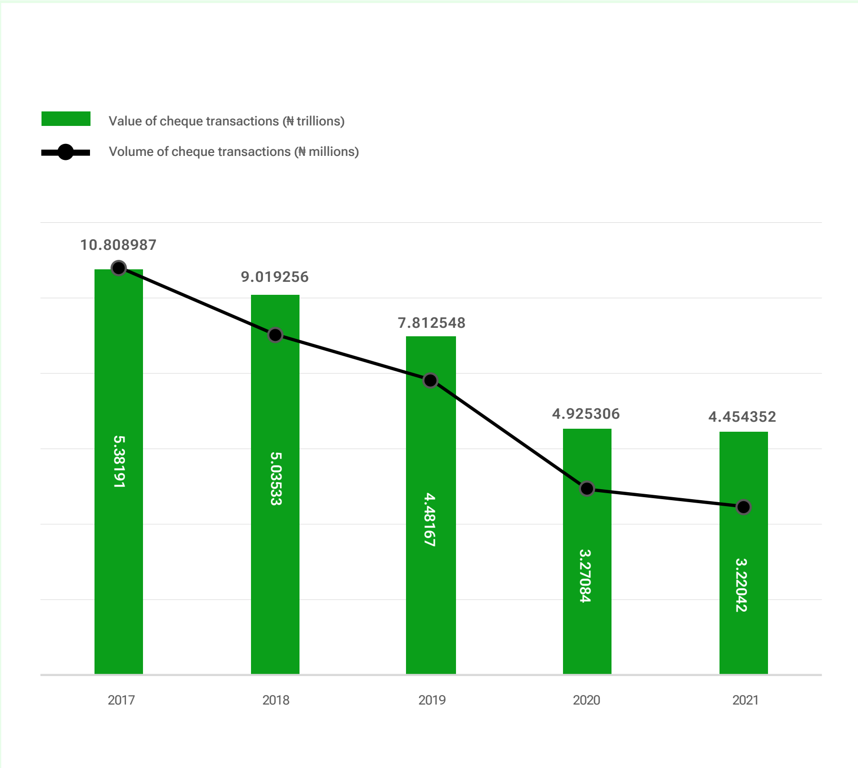


Figure 11: E-bill payments, 2017-2021

[25] Central Bank of Nigeria, 'Central Bank of Nigeria Economic Report, April 2022', (29 August 2021), available at: https://www.cbn.gov.ng/Out/2022/RSD/April%20ECR%202022.pdf

Enabling improved access through technology-enabled channels

The unprecedented growth of alternative channels offering consumers access to financial services has been made possible by the near universal adoption of mobile telephony and digital technology in Nigeria. As ease of access, convenience of use, speed and other benefits of technology-enabled channels have attracted more and more consumers, there has been a marked decline in the use of traditional channels. For example, since 2017, the volume and value of cheque transactions has fallen from 10.8 million transactions valued at ₦5.4 trillion to 4.5 million transactions estimated at ₦3.2 trillion in 2021 (Figure 12).[26]



Source: Nigeria Inter-Bank Settlement System and EnterpriseNGR analysis

Figure 12: Volume and value of cheque transactions, 2017-2021

[26] Nigeria Inter-Bank Settlement System, 'Industry Statistics: Cheques', (17 February 2022), available at: https://nibss-plc.com.ng/dashboard/istat/cheques?task=cheques

As the use of traditional bricks-and-mortar channels continues to decline, digital payments systems are becoming a staple among the working class and medium-to-high income groups, and are gradually percolating down to the lowest income groups.

Table 1[27] presents the growth in transactions for mobile and e-bills payment between 2017 and 2021. The growth, both in terms of volume and value of mobile inter-scheme transactions, has been exponential: volume grew by 5,455% and value by 4,009%. Over the same period, e-bills payment grew by 32% in volume and 314% in value.

Growth in digital/online transactions

	2017	2021	Growth 2017/2021
Volume of mobile inter-scheme transactions (thousands)	5,131	284,502	5,445%
Value of mobile inter-scheme transactions (₦' billions)	196	8,067	4,009%
Volume of e-bills payment transactions (thousands)	906	1,196	32%
Value of e-bills payment transactions (₦' billions)	551	2,279	314%

Source: Nigeria Inter-Bank Settlement System and EnterpriseNGR analysis

Table1: Growth in digital/online transactions

[27] Analyses computed using Nigeria Inter-Bank Settlement System mobile inter-scheme and e-bills payment transactions data; for sources, see footnote 23 and Nigeria Inter-Bank Settlement System, 'Industry Statistics: Mobile', (17 February 2022), available at: https://nibss-plc.com.ng/dashboard/istat/mobile-interscheme-transfers?task=mobile-interscheme-transfers

Bridging financial inclusion gaps

Broadening financial inclusion continues to be a challenge, but progress is being made. As mentioned earlier, the World Bank estimates 45% of adult Nigerians were banked in 2021, and despite 16% growth from 2011,[28] this performance is still far below the 80% by 2020 target set out in the National Financial Inclusion Strategy, 2018.[29] Target achievement was to be driven by the Financial Inclusion Secretariat of the Central Bank of Nigeria (CBN).

Notwithstanding the delay in meeting financial inclusion targets, financial institutions are extending the reach of services to remote/rural locations that lack physical bank branches. Enhancing Financial Innovation & Access (EFInA) reports[30] that one-third (34%) of rural adults, about 23.7 million people, were banked and within proximity of financial access points in 2020. Roughly 84% were served by financial services agents. Nationally, the use of financial services agents increased to 24% in 2020, up from just 4% in 2018. Meanwhile, growth in bank services was driven by payment (13%) and savings accounts (6%).

About
23.7
MILLION
people, were banked and within proximity of financial access points in 2020.

There is a need to bridge the gap with respect to account ownership among educated and uneducated adults. In Nigeria, less-educated adults (those with a primary school education or less) are 45% less likely to have an account than their counterparts with at least a secondary school education. There is also a need to improve penetration among women and poor adults as the take-up of bank accounts by these cohorts presently stands at 35% and 33%, respectively.[31]

[28] See footnote 1 above

[29] Central Bank of Nigeria, 'National Financial Inclusion Strategy (revised)', (June 2022), available at: https://www.cbn.gov.ng/out/2019/ccd/national%20financial%20inclusion%20strategy.pdf

[30] Enhancing Financial Innovation & Access, 'Key Findings: EFInA Access to Financial Services in Nigeria Survey 2020', (June 2022), available at: https://a2f.ng/wp-content/uploads/2021/06/A2F-2020-Final-Report.pdf

[31] See footnote 1 above

Supporting safe investment products

Beyond record growth in payment and transfer services, Nigeria's Financial Services sector is increasingly supporting people by providing new financial products and services, including investment opportunities to earn extra income.

Savings and time deposits are safe investment products that provide additional earnings for bank depositors. Depository institutions in Nigeria's Financial Services sector, including Commercial, Merchant, Non-Interest, Primary Mortgage and Microfinance Banks, held ₦25.6 trillion in savings and time deposits in 2021. This represents about 14.6% of GDP at current market prices, and almost doubled the ₦14 trillion held five years earlier, in 2016. In addition, Depository Corporations saw a 16.6% increase on the ₦21.9 trillion held in 2020 (Figure 13).[32] This growth suggests there is more money in circulation to facilitate economic activities.

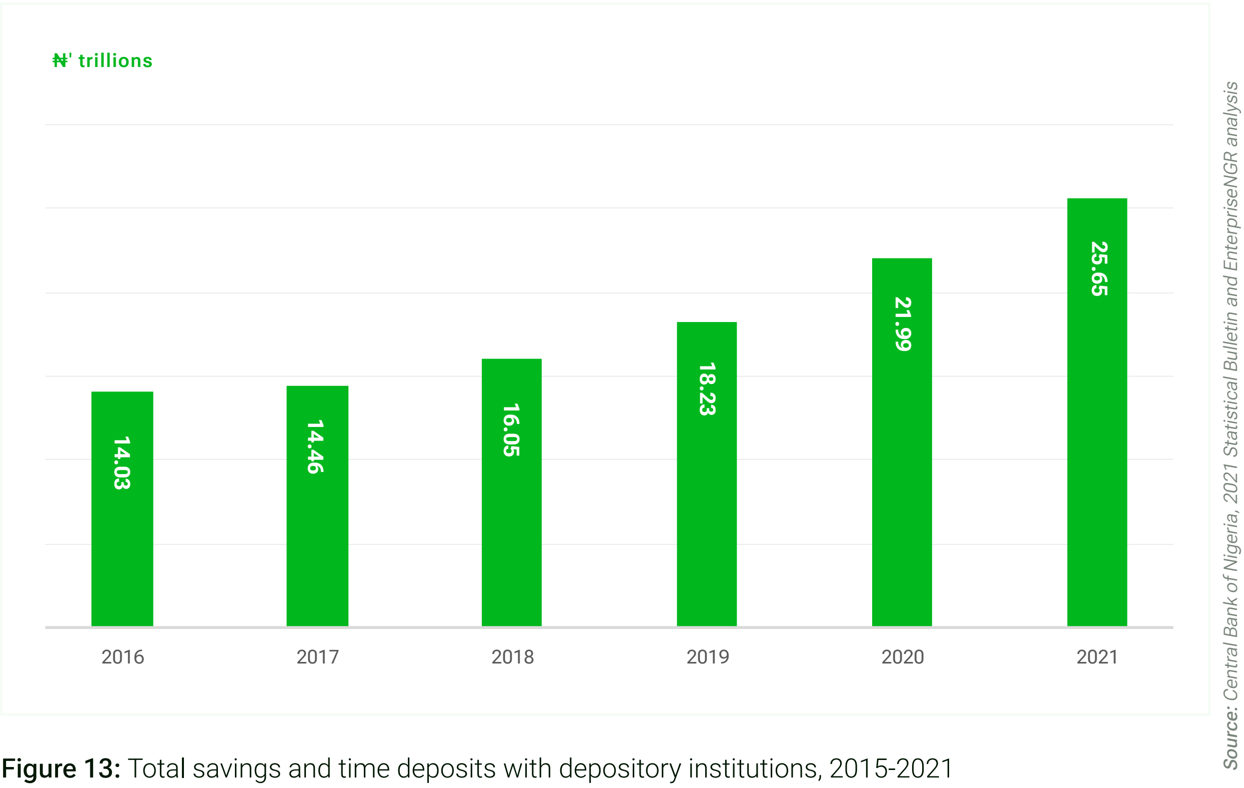


Figure 13: Total savings and time deposits with depository institutions, 2015-2021

[32] See footnote 7 above

1.3 Conclusion

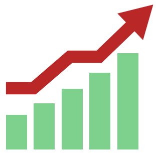
The Banking sub-sector's current size and activities demonstrate that the industry has experienced significant growth. However, when we compare the sub-sector with its regional and global peers, it is evident that there is still a lot of work to do. What, therefore, should be considered to boost this growth further? While many issues need to be addressed, there are a few critical limiting factors that need to be dealt with to further catalyse the sub-sector's development:

- **Shortage of talent and employee incentives:** Experienced workers' desire for greener pastures as well as graduates' lack of employability skills is a major challenge. 'Japa' syndrome is rampant among bank technology specialists. Employers and education providers must now devise a new approach to grooming (e.g. incubator systems) and retaining talent (e.g. remote work) to support product and service delivery and respond to changing demands with new innovations.
- **Lack of incentives for patient capital:** Real growth happens in the medium-to-long term. Operators and investors in the sub-sector need to implement a growth strategy that allows them to balance short-term profits and long-term sustainability. This is critical to driving financial inclusiveness and other initiatives that offer low or no benefits in the short term, but higher payoffs in the future. Banks setting aside a minimal percentage of their profits for investment in financial inclusion initiatives could yield significant benefits in the long term. The sub-sector must seek to attract cheaper funds with longer tenures, as this is required for growth.
- **High cost of business and poor macroeconomic environment:** Negative macroeconomic indices are significantly increasing business costs and consequently transaction costs. Investment in cheaper, more efficient, alternative sources of inputs can decelerate the upward trend in total operating costs. Across categories of supplies, infrastructure and human capital requirements, resources — time, effort, and money — should be invested to explore locally relevant options.
- **Low coopetition:** Organisations need to cooperate to be competitive. Alliances and synergies among telecommunication companies, FinTechs and banks can pool resources (such as infrastructure, funding, ideas and solutions) that partners can leverage to offer more competitive services locally and internationally.

- **Undercapitalisation:** For regional and international expansion, businesses in the sub-sector need to increase their available capital. This is more important to support large-scale services and large-portfolio clients in the high inflationary global environment.
- **Regulatory roadblocks/disincentives:** Incentives to operate in a growth-driven business environment will excite investments and innovations. While regulators are forward-looking to protect investors' funds, they also need to be more progressive to enable growth. Monetary policy must explore a balance between contractionary measures aimed at curbing inflation, etc. and the need for growth.
- **Uneven growth:** Not all institutions in Nigeria's Banking sub-sector are equally developed. Commercial and merchant banks drive the bulk of the sub-sector's activities and growth. Other institutions also have important roles to play, but regulators must empower them to deliver on that. Mortgage banks/institutions can and should deliver on housing mandates; microfinance banks and institutions can and should support large-scale microlending to support businesses, among others.
- **Inadequate credit to the productive sectors:** Most productive activities in Nigeria are still not supported by credit from banks and this limits economic activity and growth, holding back economic development at large. A focus on credit to the productive sectors will contribute to and promote growth and activities in other sectors and national development. It is also a means of reducing the incidence of bad loans and better managing credit risks.
- **Lack of individual identification and adequate credit history:** Improved customer identification and credit history are required to encourage banks to lend to consumers. Setting up a national database will be helpful. Reforms to the criminal justice system, including enforcement, will be necessary to build the trust pools without which businesses cannot take risks.
- **Low spread Innovation:** Innovation in banking has progressed and helped resolve some challenges. However, other areas of improvement require continuous innovation. These include customer service/experience, cybercrime and cost reduction, among others.

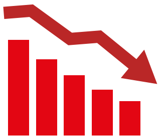
Shortage of talent and employee incentives

Lack of incentives for patient capital



High cost of business and poor macroeconomic environment

low coopetition

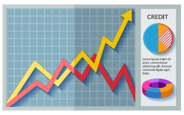


Undercapitalisation

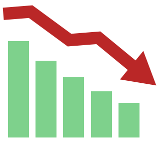
Regulatory roadblocks/ disincentives

Uneven growth

Inadequate credit to the productive sectors



Lack of individual identification and adequate credit history



Low spread innovation

Providing protection against losses

Providing funding and contributing to employment generation

Conclusion

2.0 Insurance

KEY FACTS

The industry's Total assets in 2021

₦2.2 trillion

612

operators

₦616.6 billion

gross premiums in 2021

6,673

employees engaged directly by the sub-sector, of which 59.2% were male and 40.8% female

809

offices in different locations

0.37%

insurance penetration

₦1.63 trillion

Total investments in 2020

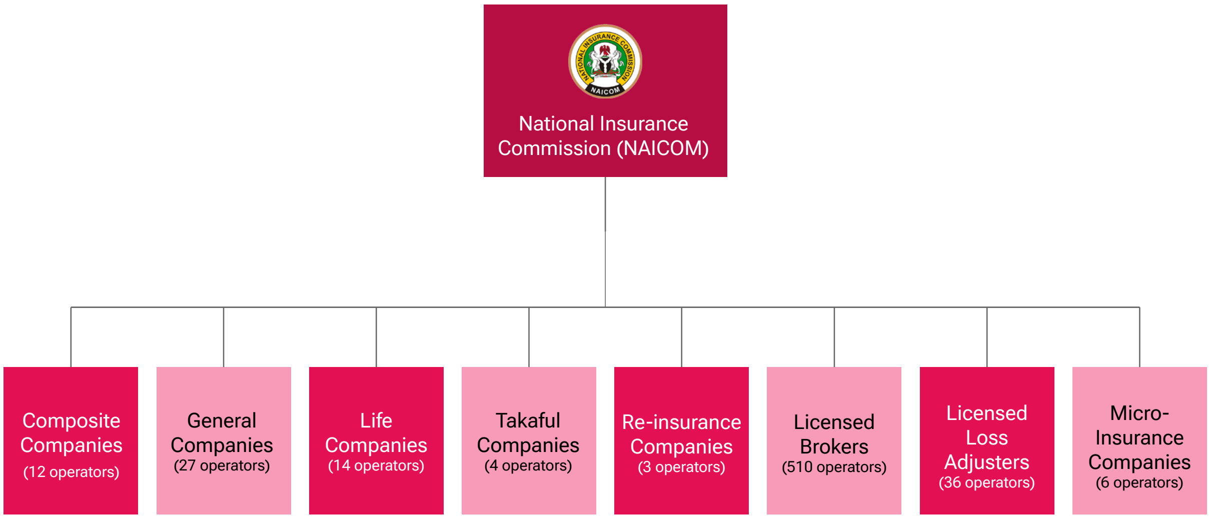
The vital role of the Insurance sub-sector in economic development makes it one of the most important in the FPS sector.

The Insurance sub-sector primarily protects people and businesses against damages and loss of assets. This sub-sector is critical to how well individuals, businesses and governments perform productive activities that eventually translate to national output. It also contributes to output through other channels.

Insurance is essential in providing resilience to businesses, individuals and families as it helps reduce financial distress and economic pressure arising from unforeseen circumstances. Insurance protects individual policyholders from financial loss by transferring the risk to an insurer. When uptake is sufficiently large, insurance provides a safety net for the whole economy. As a significant source of long-term capital (via the pooling of policyholders' premiums), the sub-sector can also contribute significantly to economic development. It typically funds major infrastructure projects and businesses required for sustainable economic growth. Being less susceptible to volatility, Insurance also provides stability for the entire financial services ecosystem — unlike the Banking sub-sector, which reacts to shocks and can experience occasional bank runs.

Insurance in Nigeria is regulated by the National Insurance Commission (NAICOM). The 600+ primary operators include Composite Companies (12), General Companies (27), Life Companies (14), Takaful Companies (four), Re-insurance Companies (three), Licensed Brokers (510), Licensed Loss Adjusters (36) and Micro-Insurance Companies (six).33 The sub-sector is governed by the Insurance Act 2003 (IA).

The Insurance Act 2003 (IA)



Insurance sub-sector structure

Despite improvements in recent years, insurance penetration (gross premium as a percentage of GDP) in Nigeria remained low at 0.4% in 2021, which is well below Africa's average penetration rate of 2.7%.[34]

This section presents Nigeria's Insurance sub-sector's performance and contributions to national growth through job creation, provision of investible funds and protection again losses.

[33] National Insurance Commission, 'Insurance Industries', (08 August 2022), available at: https://www.naicom.gov.ng/insurance-industries/

[34] Swiss Re Institute, 'Total insurance penetration premium as a percentage of GDP, 2021', (18 August 2022), available at: https://sigma-explorer.com/

2.1 Providing protection against losses

Providing protection against damages and loss of assets

The Insurance sub-sector recorded 113.1% growth in gross premium income from ₦289.3 billion in 2015 to ₦616.6 billion in 2021. The growth in premium income between 2020 and 2021 was approximately 20%. Much of this was the result of increased uptake of life insurance products, namely individual life insurance policies and annuities.[35] While this indicates increased interest by Nigerians in protecting themselves and family members from future losses, it also means that life Insurers are making larger long-term investments in Nigeria's economy. Leveraging innovation in the industry, insurance companies also aim to grow participation through insurtech (insurance technology), micro-insurance and takaful (Islamic) insurance products.

The growth in premium income between 2020 and 2021 was approximately

20%

[35] National Insurance Commission, 'Publications and Circulars', (23 August 22), available at: https://naicom.gov.ng/publications/

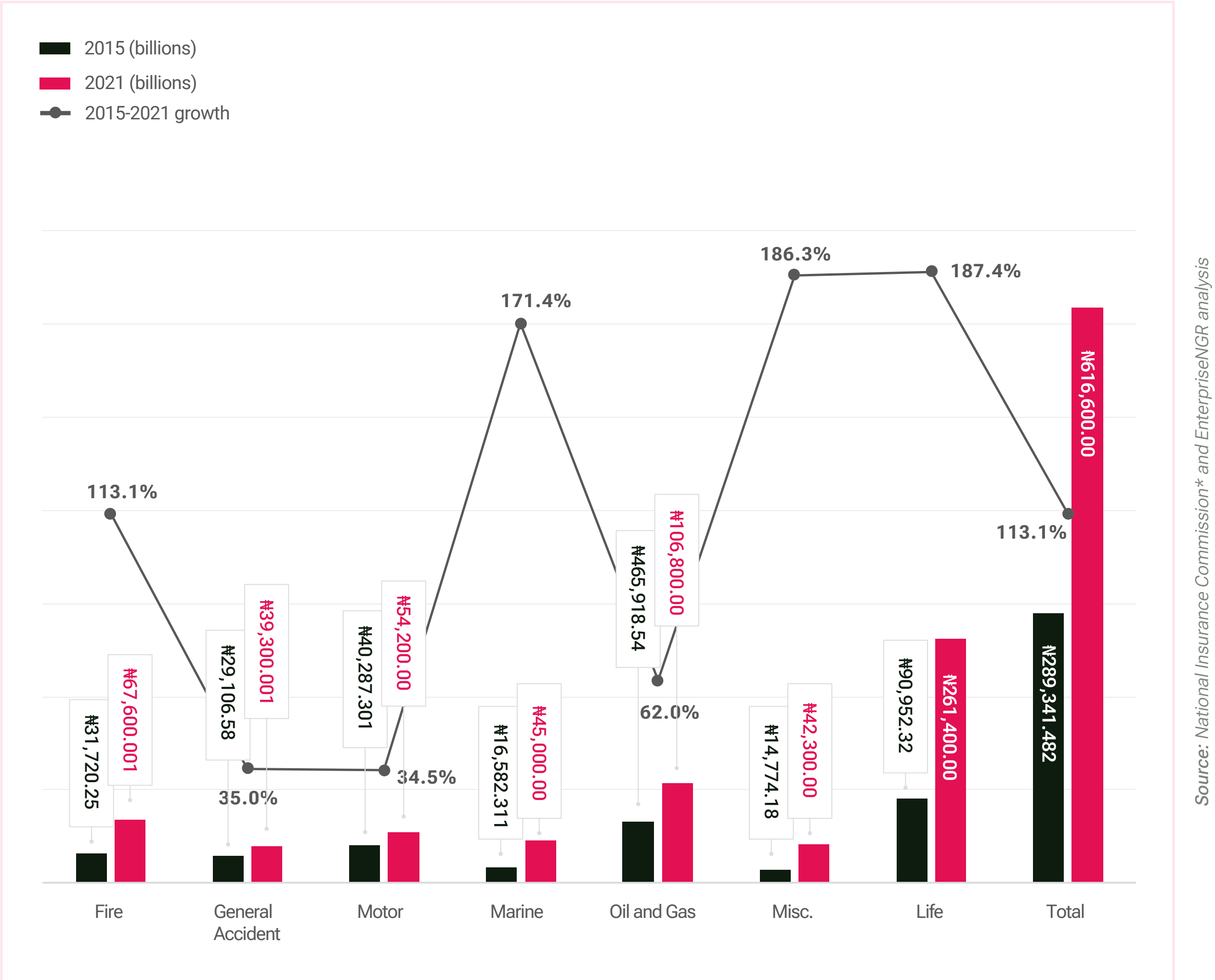


Figure 14: Gross premium income, 2015-2021

* National Insurance Commission, Insurance Market Performance, 2015 and 2021.

In 2021, gross claims represented more than half (54.6%) of gross premium income, compared to 38.4% in 2015 (Figure 15).[36] The recent increase in ratios of gross claims to gross premium income can be linked to the impact of the pandemic, greater insecurity and other economic pressures. This increase is, however, also an indication of the growing appreciation of the need for insurance to support businesses and lives, by strengthening resilience in adverse circumstances.

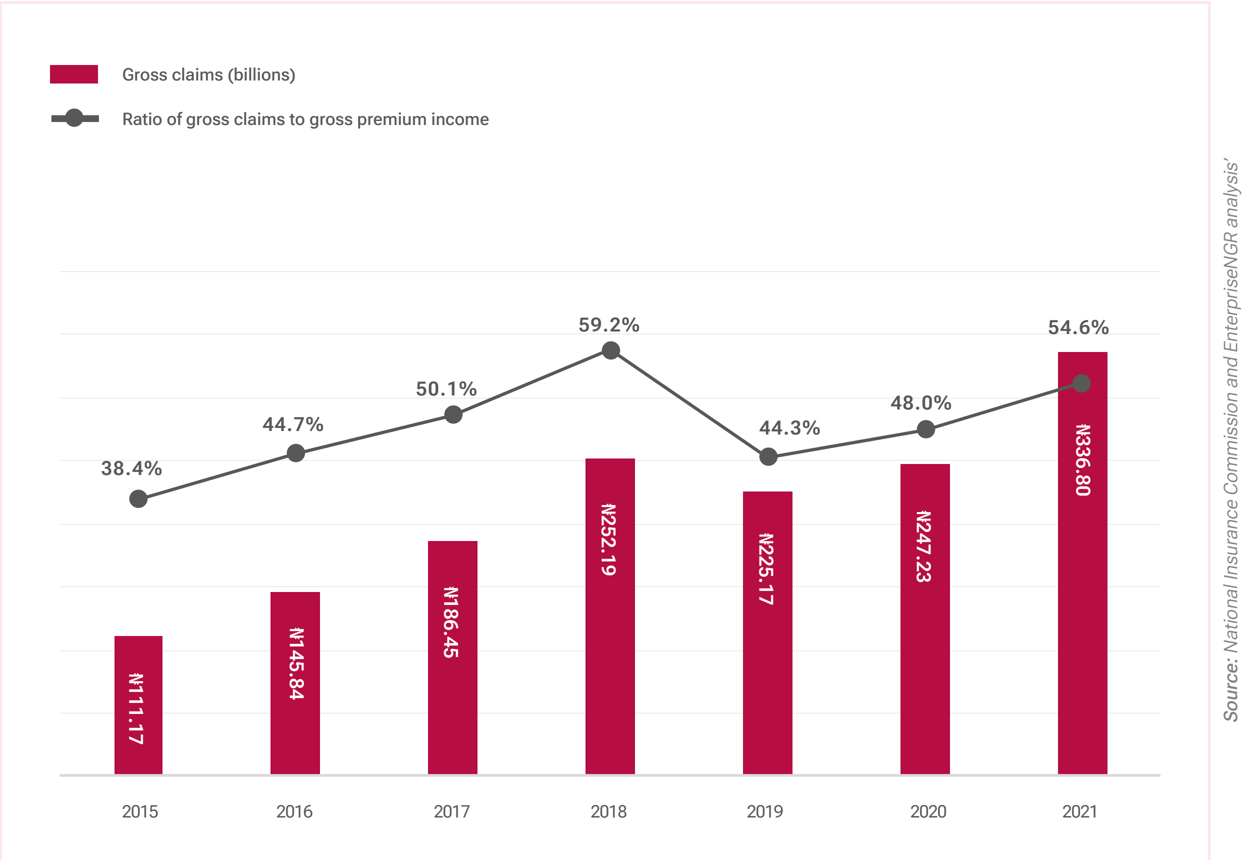


Figure 15: Gross claims, 2015-2021

[36] Computed using National Insurance Commission market statistics: see footnote 35 above.

Ensuring good health management

The National Health Insurance Act (NHIAACT) 22[37] provides guidance for health insurance in Nigeria overseen by the National Health Insurance Authority (NHIA) in the Ministry of Health. A significant number of the Health Maintenance Organisations (HMOs) in Nigeria are affiliates of operators in the Insurance sub-sector. According to the most recent National Health Accounts,[38] total health expenditure in Nigeria was estimated to be N4.5 trillion in 2017 and current health expenditure (CHE) accounted for 96.6% of this figure. Only 1.6% of CHE was financed by health insurance. The bulk of health expenditure (76.6% of CHE) was financed by out-of-pocket household spending. There is clearly a need for increased efforts to ensure an optimal health insurance structure is put in place.

2.2 Providing funding and contributing to employment generation

Providing investible funds to the productive sector

Through premium income, insurance companies make finance available for productive economic activities. Total investment by insurance companies (members of the Nigerian Insurers Association) in 2020 was ₦1.63 trillion, a 38.7% increase on the ₦1.17 trillion in 2019 (Figure 16),[39] and well above the compound annual growth rate of 21.2% over the decade commencing in 2011, when the total investment was ₦288.5 billion. Total investment in 2020 represents 1.1% of GDP at current market prices.

[37] National Health Insurance Act (NHIAACT) 22, available at https://www.nhis.gov.ng/2022/05/24/national-health-insurance-authority-nhia_-news-release/#

[38] Federal Republic of Nigeria, National Health Accounts 2017, available at https://apps.who.int/nha/database/DocumentationCentre/GetFile/58451371/en

[39] Nigerian Insurers Digest 2020 obtained directly from the NIA office; for Digest of other years, see: Nigerian Insures Association, 'NIA Digest', (20 July 2022), available at: https://www.nigeriainsurers.org/downloads

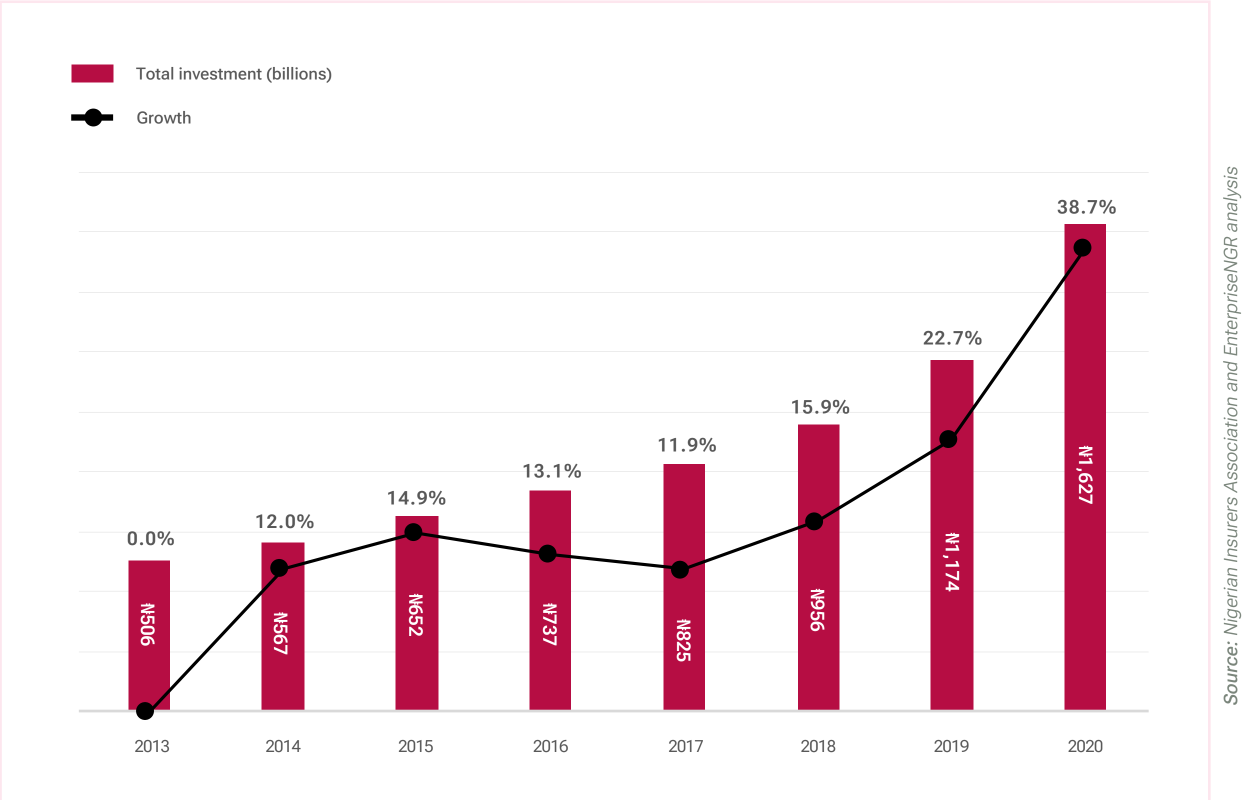


Figure 16: Insurance sub-sector's total investment, 2013-2020

In addition, there has been an upward trend in the year-on-year growth rate of insurance companies' assets — from 10.7% in 2016, when total assets was ₦1.03 trillion to 11.1% in 2017, 12.6% in 2018, 16.7% in 2019 and 28.6% in 2020, when total assets was ₦1.93 trillion.[40] The National Insurance Commission reports total assets of ₦2.2 trillion in 2021.[41] This clearly shows the upside potential of the sub-sector and the fact that there is much opportunity for growth in the market.

The Insurance sub-sector's increasing investment and assets suggest there is significant potential to strengthen its contributions to national growth through the provision of investible funds.

[40] See footnote 35 above

[41] National Insurance Commission, 'Bulletin of the insurance market performance, fourth quarter 2021', (03 August 2022), available at: https: naicom.gov.ng/publications/

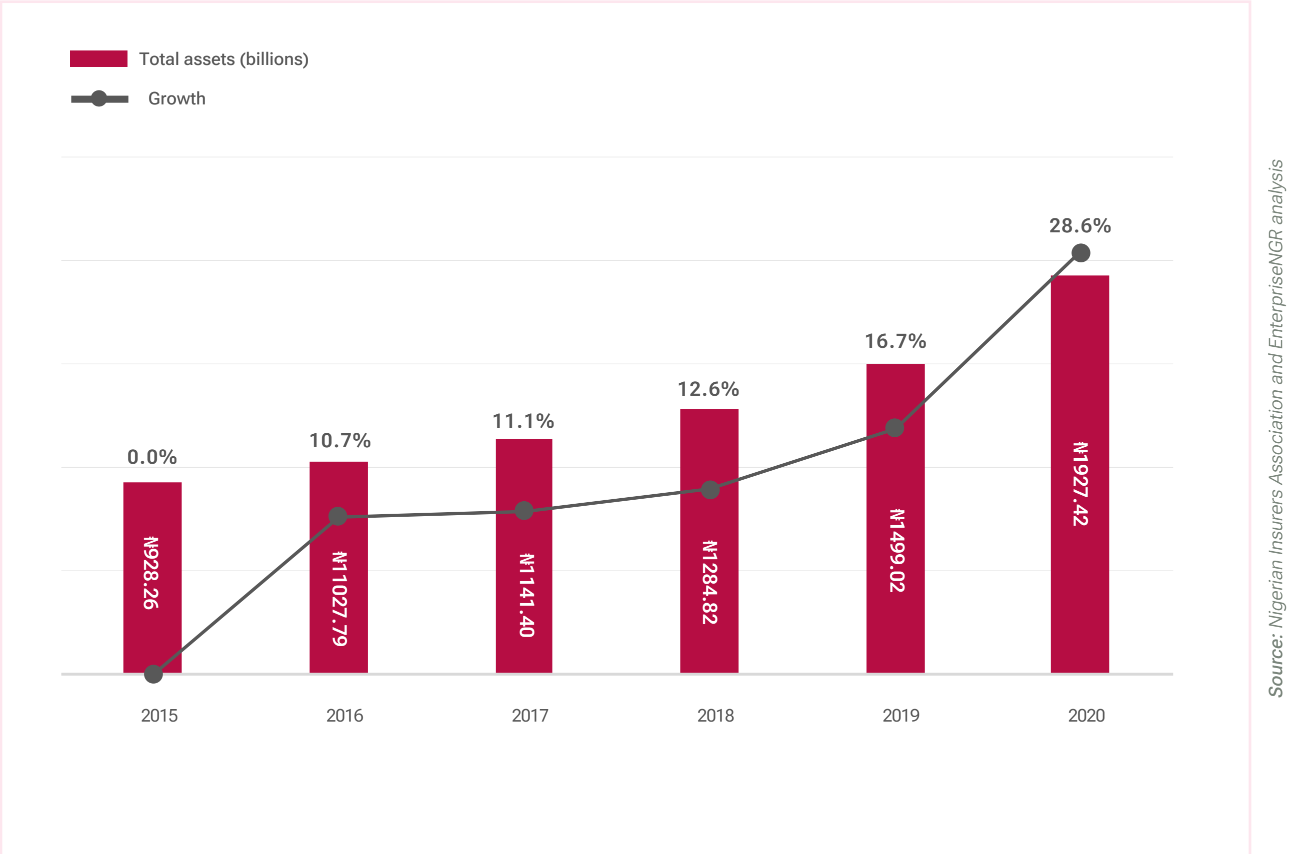


Figure 17: Insurance sub-sector's total assets, 2015 2020

Contributing to employment generation

In 2020, 56 insurance companies (members of the Nigerian Insurers Association) operated 809 offices in different locations across the country. At this time, the companies directly employed 6,673 people, of which 59.2% were male and 40.8% female.[42] However, total employment created by the Insurance sub-sector is far greater and includes jobs provided by auxiliary businesses and service providers, including banks, retail outlets, individual agents that cross-sell insurance policies, and independent professionals who provide advisory, brokerage, and underwriting services.

[42] See footnote 37 above

Supporting the national economy

The Insurance sub-sector contributes to the economy through investments, job creation and protection against losses. In 2021, the sub-sector's contribution to GDP was 0.37%. This proportion has not changed significantly in the last six years (Figure 18).[43] The dip in the sub-sector's contribution to GDP in 2020 can be attributed to the impact of the Covid-19 pandemic.

The Insurance sub-sector has great potential, but significant effort is required to improve the low market penetration for a corresponding improvement in the sub-sector's contribution to economic growth.

[43] Computed using the National Bureau of Statistics GDP data of various years; see National Bureau of Statistics, 'E-library', (28 June 2022), available at: https://nigerianstat.gov.ng/elibrary

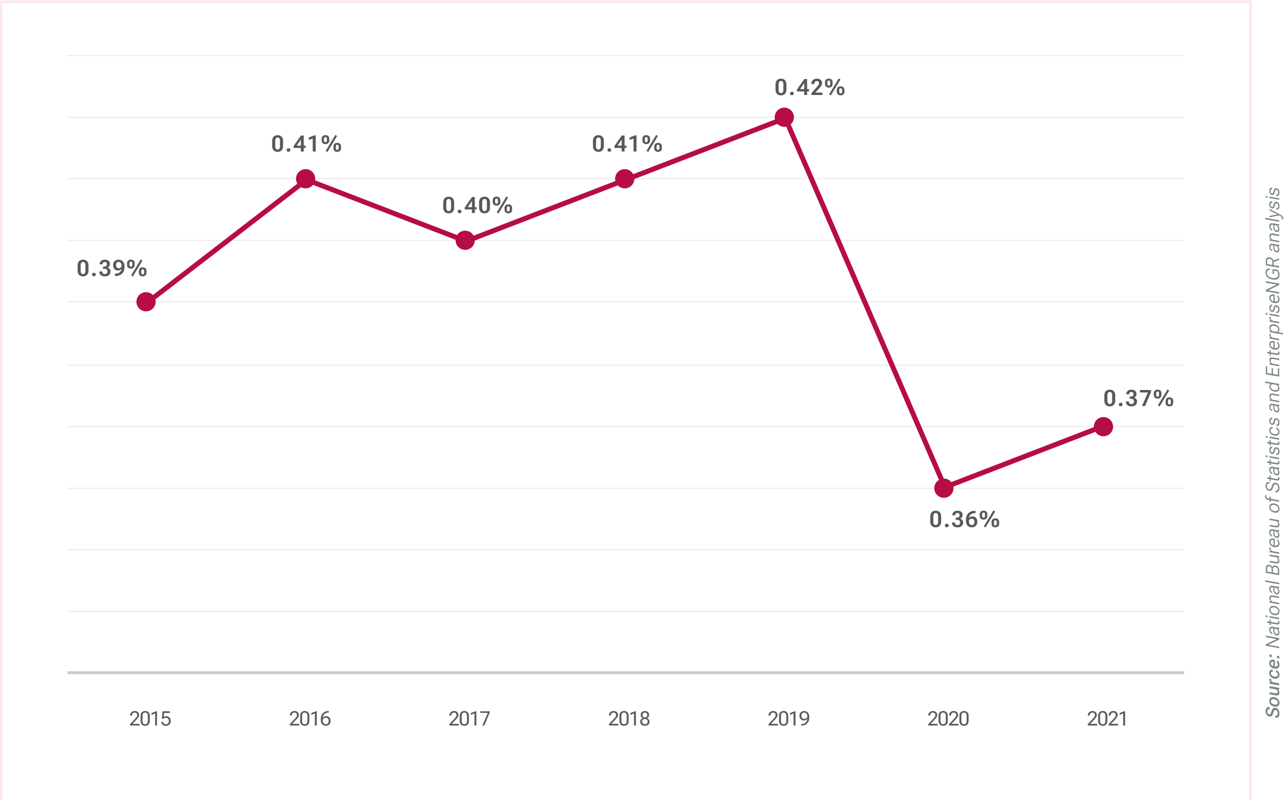


Figure 18: Insurance sub-sector's contribution to GDP, 2015-2021

2.3 Conclusion

The Insurance sub-sector plays an important role in supporting a strong and resilient economy. Irrespective of its growth potential, evidence favours the conclusion that Nigeria's Insurance sub-sector is grossly underperforming. Penetration (premiums as a percent of GDP) and adoption are generally low: penetration is 0.37%, compared to 1.1 percent in Ghana, 4.0% in Morocco and 12.2% in South Africa.[44] This underperformance calls for action to accelerate industry growth, which will make a significant contribution to the economy and people. Reform choke-points include:

- **Unprofessional and corrupt practices:** Unethical practices designed to boost profits are not uncommon in the industry. This is one of the factors contributing to low trust and confidence in insurance. An improvement in industry governance, from sales to payment of claims, is required to position the sub-sector on a new growth path. Regulators must work collaboratively with industry leaders to enforce standard practice.

- **Low level of insurance literacy and awareness:** A significant portion of the industry's low adoption is traceable to low awareness levels and poor knowledge about insurance and insurance products, and their benefits. Insurance education is critical. This should be promoted through different communication channels at all levels and embraced by all stakeholders to reverse the current trend. In addition to other approaches, this will require the domestication of insurance concepts in local languages and an introduction of education campaigns to reverse the widespread negative cultural beliefs about insurance.

- **Poor collaboration and partnerships:** Current business operations suggest that operators have not been able totap into opportunities to increase uptake through collaborations with associations, agencies, etc., in adjacent sectors such as the transportation industry via travel insurance and automobile insurance, the banking industry via bancassurance, the telecommunication industry via insurtech and mobile money solutions that allow the sale of insurance and payment of premiums via mobile platforms. Industry associations, agencies, and institutions that have direct contact with business owners and managers can facilitate arrangements leading to the acceptance and adoption of products.

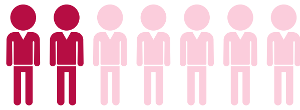
- **Weak regulatory environment and lack of support from operators:** Reforms can reverse the sub-sector's underperformance, but regulators must take the lead. The requirements for change include strong enforcement rules for stakeholders to comply with reforms and regulation, and support the growth of the sub-sector.

- **Undercapitalisation:** Business and activity in the sub-sector is limited because of its operators' low capital base. Closely linked to undercapitalisation is the shortage of talent and resources to push the spread of insurance services. Undercapitalisation could hinder growth and development, particularly in a high inflationary global business environment. Operators will require a large capital base to support large-scale businesses and many international clients' operations. Equity funding, mergers and government direct finance are options that could be explored to shore up the capital base.

- **Low technology adoption:** Penetration can improve if insurance products/ services are digitalised. As in Banking, operators should leverage technological advancement, business applications and widespread mobile telephony to drive penetration and support innovative services.
- **Weak macroeconomic environment:** Creating economic prosperity through an improved macroeconomic environment will incentivise growth in the sub-sector. Economic prosperity would put more disposable income in the pockets of average Nigerians, leading to the likelihood of increased insurance product uptake due to a rise in income level.

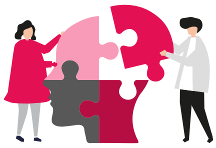
[44] Swiss Re Institute, 'Total insurance penetration premium as a % of GDP, 2021', (18 August 2022), available at: https://sigma-explorer.com/

Unprofessional and corrupt practices



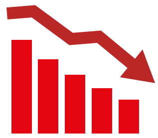
Low level of insurance literacy

Poor collaboration and partnerships

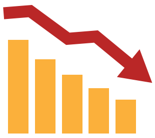


Cross-sectoral synergies

Weak regulatory environment



Undercapitalisation



Low technology adoption

Weak macroeconomic environment

Facilitating growth through a supportive securities market

Conclusion

3.0

Capital Markets

KEY FACTS

₦1.5 trillion

of Domestic transactions on the NGX in 2021

₦525.95 billion

NASD Mkt Cap (The NASD Exchange recorded market capitalisation) in 2020

US$51.3 billion

₦22.3 trillion

NGX Mkt Cap (Total equity market capitalisation) in 2021

1,293

market operators, classified in 30 roles

NGX Debt Capital Market

146 Bonds

US$43.3 billion

₦18.8 trillion

worth of 86 Federal Government of Nigeria (FGN) Bonds

US$1.7 billion

₦718.3 billion

worth of 46 Corporate Bonds

US$477.1 million

₦207.6 billion

worth of 4 State and Municipal Bonds

FMDQ

$484.7 billion
₦198.9 trillion
Value of transactions during the year to December 2021

$1.5 billion
₦601.2 billion
20 bonds/sukuk

$990.3 million
₦406.4 billion
66 commercial papers

$1.1 billion
₦465 billion
15 registered commercial papers

$16.7 million
₦6.9 billion
119 FGN debt securities

₦6.9 billion
Over-the-counter foreign exchange (OTC FX) futures market traded contracts

$6.7 billion
in capital inflows

$698.8 million
in foreign direct investment through equity investments, and "other capital" investments

$6.0 billion
in foreign portfolio investments and "other investments" like loans, trade credits, other claims etc

₦2.8 trillion
market supported successful completions of new securities issues in 2020

₦2.7 trillion
in 2019

65.8%
of FGN bonds

23.5%
of mutual funds/unit trust schemes

9.2%
of corporate bonds

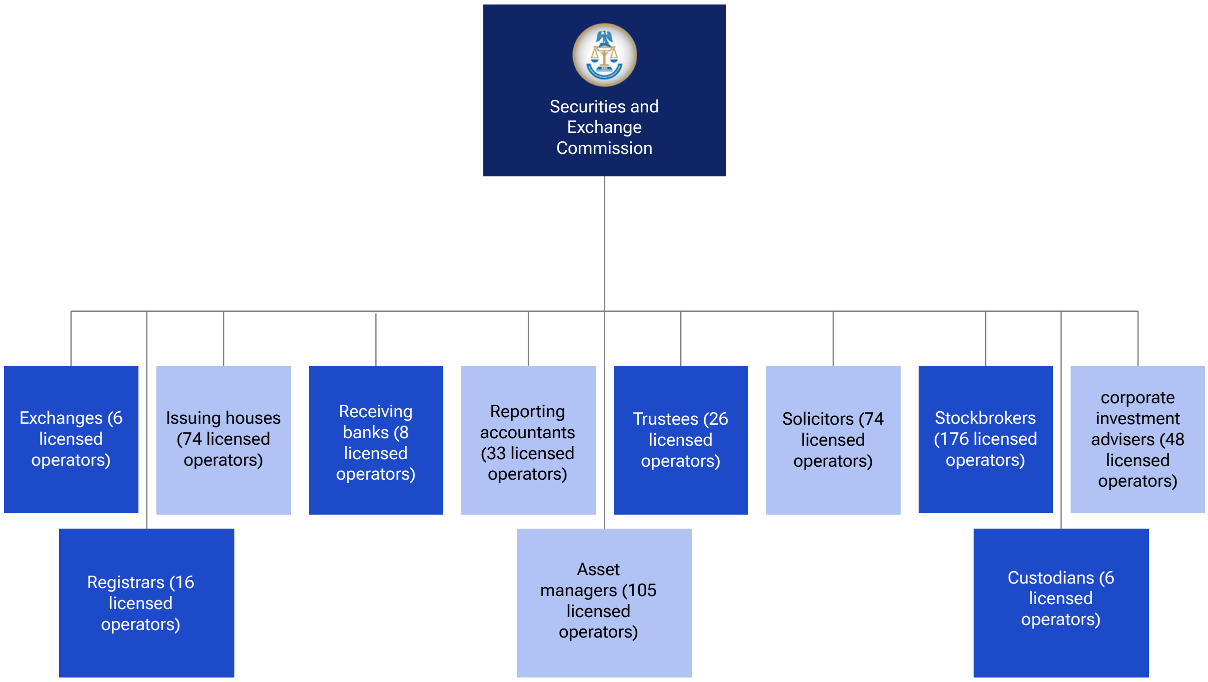
Introduction

Most prosperous economies host a diversified Capital Markets sub-sector that trades in a variety of investment instruments to support the financial needs of local and international investors. By providing long-term capital required by businesses to grow, capital markets are critical to fostering sustainable economic development. Depending on how deep and broad their operations are, they may also fund innovation. Businesses finance a broad spectrum of economic activities via debt, equity or mezzanine instruments through the capital markets while providing avenues for the public to invest their funds and grow their wealth. The Capital Markets sub-sector plays a very important role in job creation by ensuring that businesses are sufficiently liquid to fund their growth. By effectively allocating and diversifying risk, capital markets helps to improve resilience in the economy. Given the correlation between healthy capital markets and economic growth, the importance of this sub-sector cannot be overemphasised.

This section presents Nigeria's Capital Markets sub-sector's performance in terms of how it facilitates and promotes access to finance for companies and governments.

Nigerian capital markets are regulated by the Securities and Exchange Commission. According to the SEC,[45] its primary operators include Exchanges (four licensed operators), Registrars (18 licensed operators), Issuing Houses/Underwriters (101 licensed operators), Receiving Banks (24 licensed operators), Reporting Accountants/Auditors (166 licensed operators), Trustees (30 licensed operators), Solicitors (376 licensed operators), Brokers/Dealers (165 licensed operators), Custodians (eight licensed operators) Corporate/Individual Investment Advisers (116 licensed operators) and Fund/Portfolio Managers (126 licensed operators). The sub-sector is regulated under the Investment and Securities Act 2007 (ISA).

Investment and Securities Act 2007 (ISA).



Capital markets sub-sector structure

[45] Securities and Exchange Commission, 'Statistical Bulletin: 2020Q3 Statistical Bulletin Tables and Notes', (07 July 2022), available at: https://sec.gov.ng/statistical-bulletin/

3.1 Facilitating growth through a supportive securities market

Promoting debt/equity finance

The Nigerian Exchange Limited (NGX) (formerly the Nigerian Stock Exchange) provides a platform for companies of different sizes in different sectors to access capital. Total equity market capitalisation[46] reached ₦22.3 trillion ($51.3 billion) in 2021,[47] an improvement on its peak performance in 2020 of ₦21.1 trillion ($51.3 billion).[48] The Exchange listed 152 companies in 11 sectors: Agriculture, Conglomerates, Construction/Real Estate, Consumer Goods, Financial Services, Healthcare, ICT, Industrial Goods, Natural Resources, Oil and Gas, and services.

NGX total equity market capitalisation reached

₦22.3 TRILLION

($51.3 billion) in 2021, an improvement on its peak performance in 2020 of ₦21.1 trillion (US$51.3 billion)

Supporting both domestic and foreign investors, the bourse processed ₦1.9 trillion in investment flows in 2021. This included ₦204.9 billion and ₦229.6 billion in foreign inflows and outflows respectively. On the local side, it processed ₦578.1 billion and ₦886.6 billion in domestic retail and institutional transactions respectively.[49] Close to half of the transactions executed on the Exchange and 61% of domestic transactions specifically catered to domestic institutional investment needs (Figure 19).

In addition, the NASD OTC Securities Exchange's platform facilitates over-the-counter (OTC) equity trading of unlisted public companies. The market is flexible enough to accommodate other products such as commercial papers. In 2021, the NASD Exchange recorded market capitalisation of ₦629.03 billion, up from ₦525.95 billion in 2019; representing 19.6% growth.[50] The market currently lists 43 securities[51] and aims to grow the number to support wider participation.

[46] Equity market capitalisation reflects the combined value of shares on the Exchange's Premium Board, Main Board, Growth Board, Alternative Securities Market (ASeM) Board and REITs.

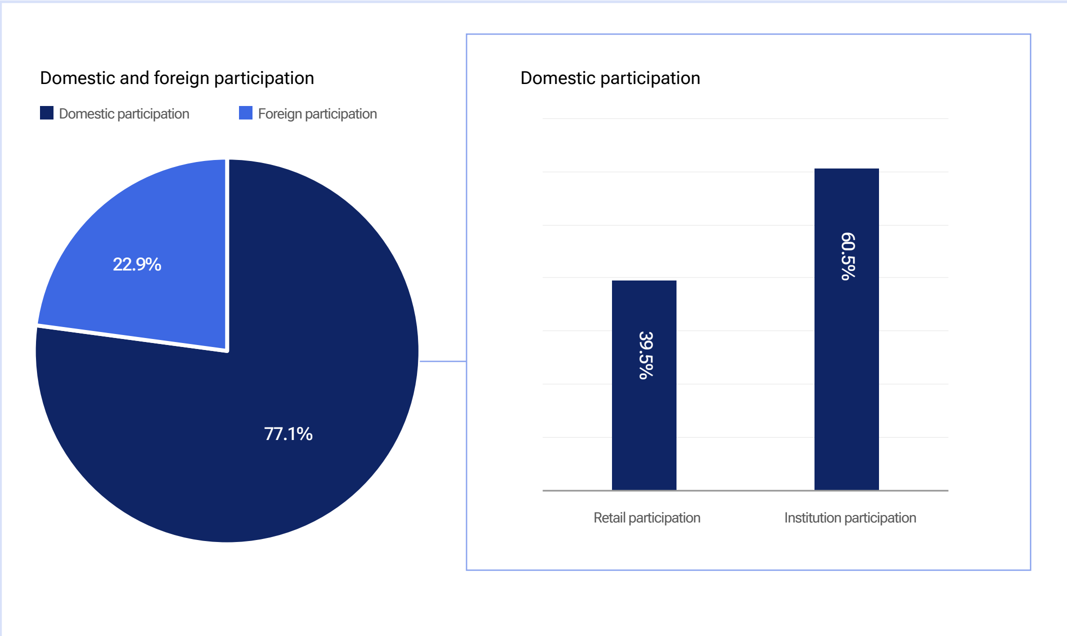
[47] Nigerian Exchange Limited, 'NGX Q4 2021 Fact Sheet', (19 February 2022), available at: https://doclib.ngxgroup.com/market_data-site/other-market-information-site/NSE%20Fact%20Sheet/NGX%20Q4%202021%20Fact%20Sheet.pdf

[48] Nigerian Exchange Limited, 'NSE Q4 2020 Fact Sheet', (20 January 2022), available at: https://doclib.ngxgroup.com/market_data-site/other-market-information-site/NSE%20Fact%20Sheet/Q4%20Fact%20Sheet%202020.pdf

[49] Nigerian Exchange Limited, 'Domestic and Foreign Portfolio Investment Report, December 2021', (10 February 2022), available at: https://doclib.ngxgroup.com/market_data-site/other-market-information-site/FPI%20Report/NGX%20Domestic%20and%20Foreign%20Portfolio%20Investment%20Report-%20December%202021.pdf

[50] NASD Plc, '2021 Annual Reports & Financial Statements', (23 August 2022), available at: https://nasdng.com/wp-content/uploads/2022/08/NASD_Annual_Report_2021.pdf

[51] NASD Plc, 'Price List', (23 August 2022), available at: https://nasdng.com/prices-markets/market-statistics/



Source: Nigerian Exchange Limited (NGX) and EnterpriseNGR analysis

Figure 19: Domestic and foreign portfolio investment, 2021

Promoting finance for capital projects and derivative markets

Nigeria's capital markets provide many opportunities for companies to raise capital and for governments to finance projects. At the end of 2021, the Nigerian Exchange listed 146 bonds, which included 86 Federal Government of Nigeria (FGN) Bonds valued at ₦18.8 trillion ($43.3 billion), 46 corporate bonds worth ₦718.3 billion ($1.7 billion), and 14 state and municipal bonds valued at ₦207.6 billion ($477.1 million).[52]

[52] See footnote 47 above

Turnover at the FMDQ Securities Exchange[53] for the year to December 2021 reached ₦198.9 trillion ($484.7 billion). The market listed 20 bonds/sukuk valued at ₦601.2 billion ($1.5 billion), quoted 66 commercial papers valued at ₦406.4 billion ($990.3 million) and registered 15 commercial paper programmes valued at ₦465 billion ($1.1 billion). In addition, 119 FGN debt securities valued at ₦6.9 billion (US$16.7 million) were listed. The over-the-counter foreign exchange (OTC FX) futures market traded contracts valued at $6.7 billion during the year.[54]

Source: Nigerian Exchange Limited, FMDQ Securities Exchange Limited and EnterpriseNGR analysis

Figure 20: Bond securities traded on the Nigerian Exchange and FMDQ Securities Exchange, 2021

[53] The Exchange provides integrated financial market infrastructure that caters to businesses and institutional investors needs for debt capital, derivatives, foreign exchange and equity.

[54] Based on data provided by FMDQ Securities Exchange Limited on 07 June 2022

The market registered and listed infrastructure funds to further promote and facilitate investment in capital projects. Before 2021, six funds were registered with the Securities and Exchange Commission, and the Stanbic IBTC Infrastructure Fund moved the number to seven in 2021. Together, the seven infrastructure funds were worth ₦121.8 billion, the value of investments totalled ₦76.7 billion, and the assets under management were valued at ₦105.2 billion as at 2021.[55]

The total infrastructure fund investments grew by 43% over the previous year in 2020 and by 25% in 2021 (Figure 21). With 79% growth in total investments between 2019 and 2021, infrastructure funds are increasingly contributing to infrastructure/capital project funding and gradually expanding growth opportunities for the national productive base.

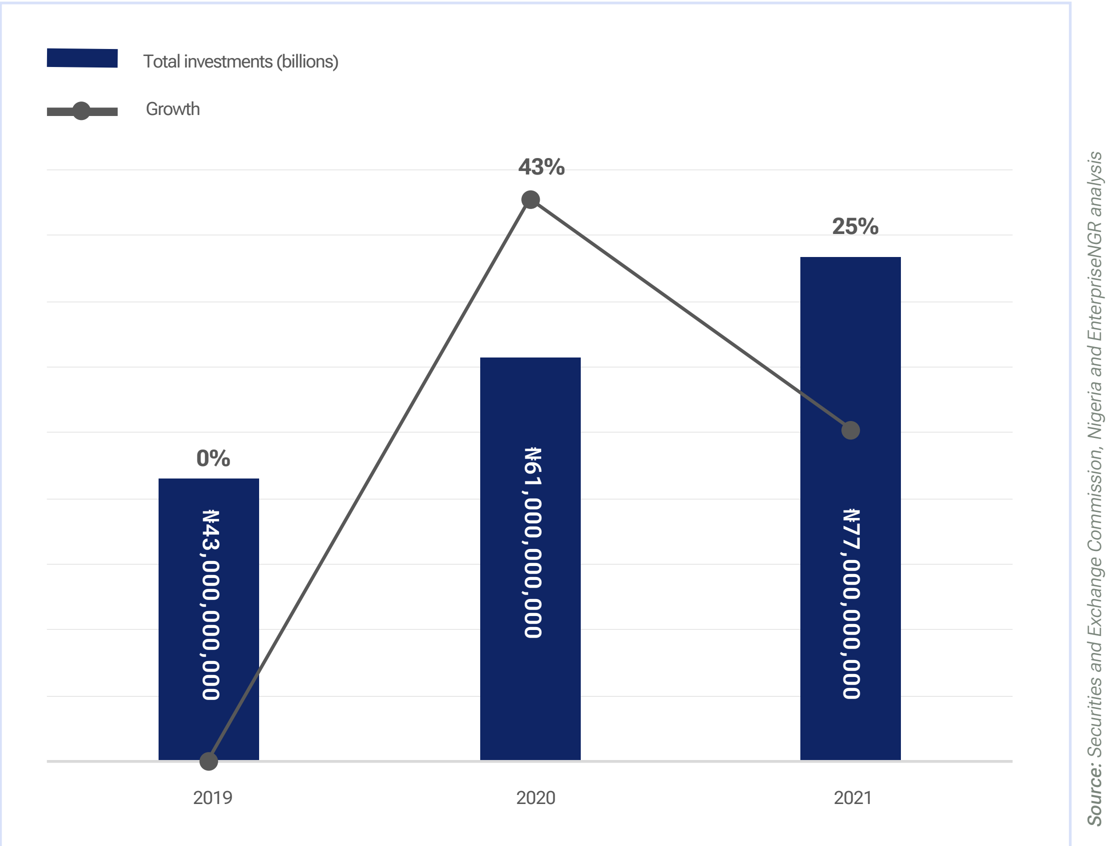


Figure 21: Total investments by infrastructure funds

[55] Securities and Exchange Commission, 'Quarterly Update on Private Equity and Infrastructure Funds', (21 July 2022), available at: https://sec.gov.ng/quarterly-update-on-private-equity-and-infrastructure-funds/

Facilitating foreign capital inflows

Nigeria's capital markets make an essential contribution to the national economy by attracting foreign capital inflows, including foreign direct investment, foreign portfolio investment and other investments. While Nigeria's capital inflows have dwindled in recent years, a strong investment case still exists for foreign investors. The sheer size of the Nigerian market (largest GDP in Africa and largest population) and its untapped market potential affirm this. A stable foreign exchange regime, reforms to the criminal justice system and improved security, among others, are required to realise the capital markets' potential in this area.

Capital inflows in 2021 declined from 2020 figure of

$9.7 BILLION

In 2021, approximately $6.7 billion in capital inflows passed through the market with $770.6 million (11.5% of the total capital importation) in portfolio investment being through equities and bonds. Capital inflows in 2021 declined from the 2020 figure of $9.7 billion (Figure 22).[56] This decline was due to the contractionary impact on the global economy of the Covid-19 pandemic. However, other factors peculiar to Nigeria, including exchange rate fluctuation / FX liquidity squeeze, challenges with the repatriation of profits, political uncertainty and insecurity also contributed.

[56] See footnote 18 above

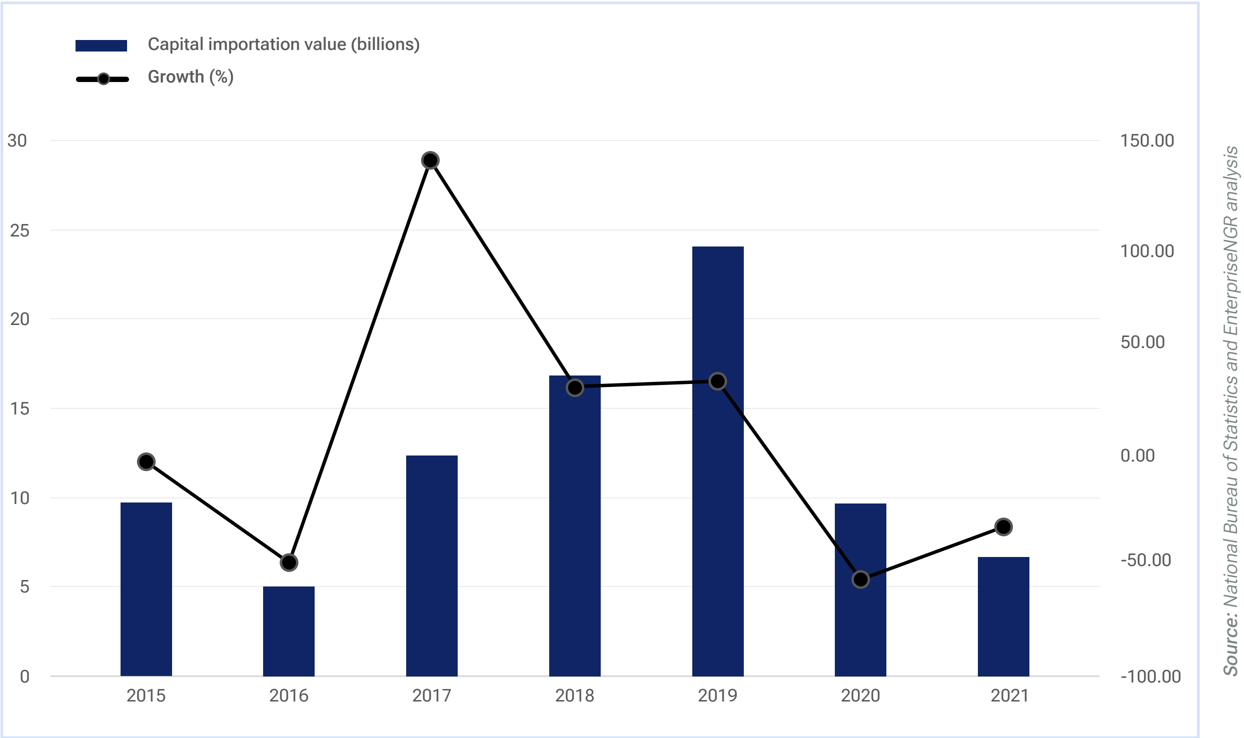


Figure 22: Capital inflows

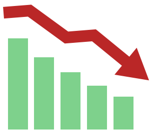
3.2 Conclusion

Measured on several performance indicators, Nigeria's Capital Markets differ from what they were ten years ago. They have witnessed some growth and deepening and may credibly be classified as emerging markets. However, to realise their potential, the markets will need to transform, become more open to foreign investors and compete with global peers. This implies the need to fix current areas of challenge, which include but are not limited to:

- **Undercapitalisation:** The markets need to be able to support large and long-term projects and promote global footprints of exchanges with securities listed on international capital markets.
- **Low level of innovation:** Innovation, particularly technology enablement, has started, but more effort is required to ensure it becomes widespread. There is low product innovation. The markets will need to introduce products that are consistent with trends, more attractive to younger generations and digital natives, and products that will encourage international investors. Collaboration between regulators and operators to speed up innovation is now more urgent.
- **Low participation rate:** The 5.2% retail inclusion rate in the markets underscores the need to deepen awareness and provide incentives to non-participating segments of the local population and international investors; and promote securities with environmental, social and governance (ESG)/ ethics mandates to attract investments from around the world. The current economic climate further induces significant declines in trading volume. More investor education programmes and broad-based awareness campaigns should be intensified, particularly on the benefits of the long-term investments that the markets provide. In addition, leveraging technology to drive access among tech-oriented youth will also improve participation.
- **Low spread:** The markets need to diversify further, remain equally relevant to all productive sectors, and promote regional (African) expansion.
- **Regulatory roadblocks/disincentives:** While regulators have been growth enablers, there are policies that disincentivise efficient market operations in some way. Regulators should engage and collaborate more with operators in policy formulation.
- **Limited listing of securities:** There have not been a significant number of securities listings in recent times. While an improved macroeconomic environment would encourage companies to list, government should speed

up privatisation efforts, securitisation of government assets and reforms in other sectors for enterprises to leverage the strength of the capital markets to raise funds.

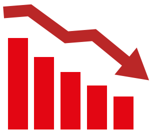
- **Lack of process standardisation:** Processes such as access to market and customer identity management are siloed, managed by individual stockbrokers. A centralised platform would allow prospective investors to select among many brokers and fund managers in the markets. Also, the KYC (know your client) process can be centralised and managed by a single entity/platform provider. These will reduce the cost of operations.
- **Low allocation of pension funds to equities:** Increasing pension fund contributions should percolate through securities markets. Increasing pensions' equity investment quota, as in other developed and emerging economies, can increase market activity.
- **Macroeconomic policies:** The markets are directly affected by macroeconomic policy. The current policy direction on key macroeconomic issues is not favourable to the efficient operations of the markets. Since both international and local investors' decisions are informed by current and expected policy changes, addressing key macroeconomic issues will benefit growth of the markets.



Undercapitalisation

Low level of innovation

Low participation rate



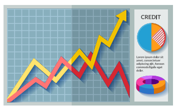
Low spread

Regulatory roadblocks/disincentives

Limited listing of securities

Lack of process standardisation

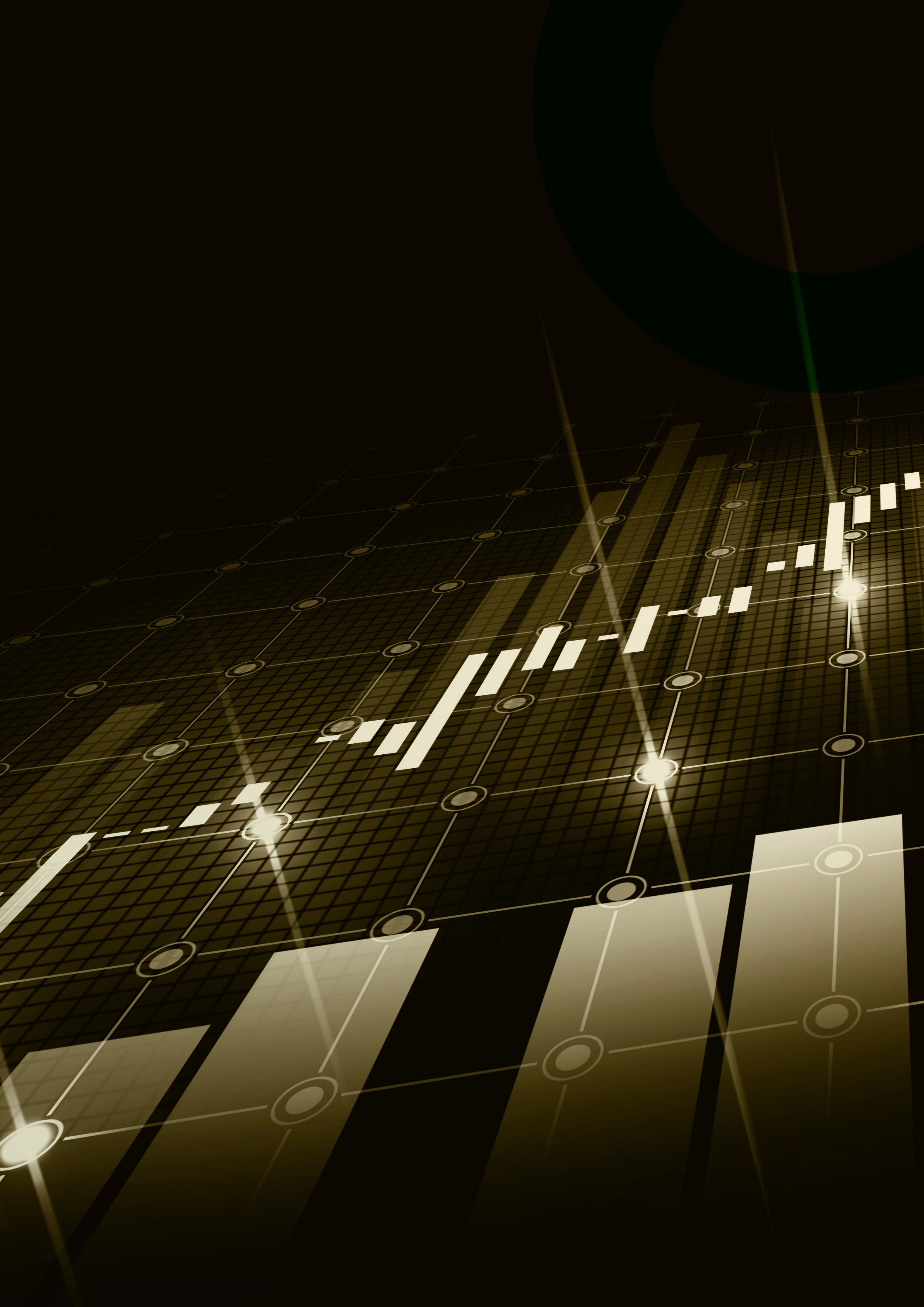
Low allocation of pension funds to equities



Macroeconomic policies

4.0

Asset Management



KEY FACTS

Mutual funds are significant sources of funding in the market with

over ₦1.2 trillion

in combined assets under management as at 2021

₦1.5 trillion

of domestic transactions on the NGX in 2021

Nigeria's capital markets invested approximately

₦65 billion

in 2021

In the first three quarters of 2020 alone, the market supported successful completions of new securities issues valued at

₦2.8 trillion

In 2021, 33 unit trust schemes valued at

₦10.3 trillion

Nigeria topped African countries and attracted

23%

(or 145) of the early-stage deal volume

$86.4 million

eurobond funds were registered, with 42% of the registered schemes newly introduced

In 2021, 19 companies received approval to issue corporate bonds valued at

₦369.8 billion

Mutual funds are significant sources of funding in the market with more than

₦1.2 trillion

in combined assets under management as at 2021

Introduction

The significance of asset management cannot be underrated. In 2021, the global Asset Management sub-sector reached $112.3 trillion, up from $100.1 trillion in 2020.[57] Growth in 2021 was 12.2% and exceeded the 10.4% achieved in 2020. The sub-sector drives the bulk of activities in the capital markets. This section further disaggregates the Asset Management sub-sector, highlighting the avenues and channels through which capital market diversification is being promoted. Nigeria's asset management ecosystem is supported by a number of operators with distinct roles mirroring the depth and breadth of the capital markets. Importantly, these players are expanding opportunities in different investment areas, not only for businesses and governments, but also for retail investors.

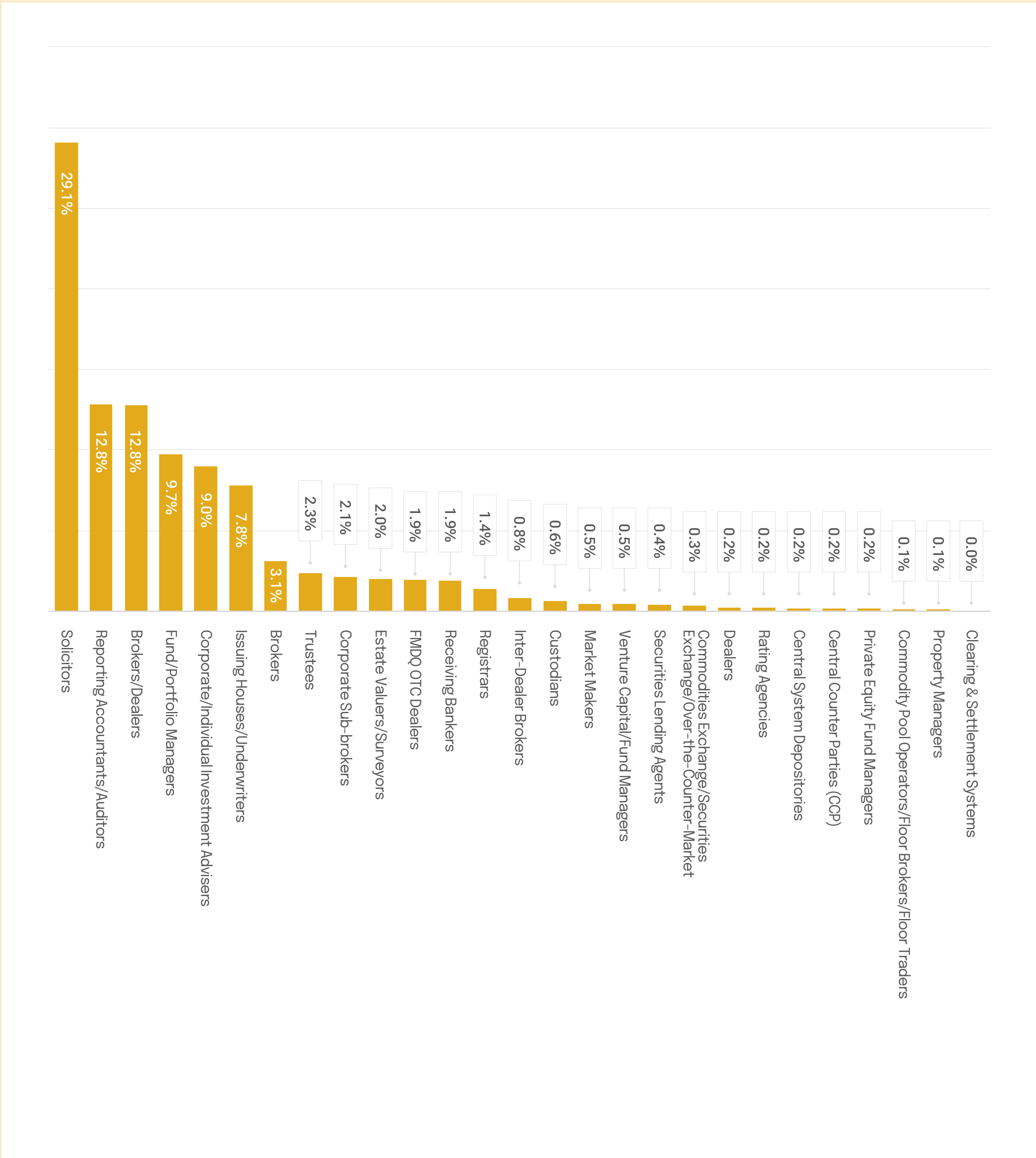
4.1 Promoting and supporting investment through a diversified market

Promoting varieties of investment activities in a diversified market

Nigeria's Asset Management sub-sector is supported by many players with distinct roles, showcasing the diverse nature of the capital markets. According to the Securities and Exchange Commission of Nigeria, as of Q3 2020 based on data availability, the Capital Markets sub-sector consisted of 1,293 market operators, classified in 30 roles (Figure 23).[58] These range from Brokers, Dealers, Fund Managers, and Registrars to Reporting Accountants/Auditors, Securities Lending Agents, and Underwriters. These players facilitate various activities and help expand opportunities in different investment areas.

[57] Boston Consulting Group, 'Global Asset Management 2021: The $100 trillion Machine', (6 September 2022), available at: https://web-assets.bcg.com/79/bf/d1d361854084a9624a0cbce3bf07/bcg-global-asset-management-2021-jul-2021.pdf

[58] See footnote 45 above



Source: Securities and Exchange Commission, Nigeria and EnterpriseNGR analysis

Figure 23: Capital Markets operators

In the first three quarters of 2020 alone, the market supported successful completions of new securities issues valued at ₦2.8 trillion, slightly above the ₦2.7 trillion for the entire 2019. FGN Bonds comprised 65.8% of these transactions, followed by mutual funds/unit trust schemes at 23.5% and corporate bonds at 9.2%.

In 2021, 33 unit trust schemes valued at ₦10.3 trillion and $86.4 million dollar/eurobond funds were registered, with 42% of the registered schemes newly introduced. In 2021, 19 companies received approval to issue corporate bonds valued at ₦369.8 billion. This includes a ₦10 billion sukuk for home ownership by Family Homes Funds Limited, a ₦10.5 billion infrastructure bond by LFZC Funding SPV plc and a ₦6.2 billion green bond by NSP-SPV PowerCorp plc.

Supporting business and government through mutual funding

As of 2021, the market listed 120 different mutual funds in the following categories: equity-based funds, money market funds, bond/fixed-income funds, dollar funds, real estate funds, mixed funds, ethical funds, and Sharia-compliant funds. The variety of funds available provided investors in the domestic economy unique opportunities to diversify their portfolios while tapping into asset classes of interest.

Mutual funds are significant sources of funding in the market with over ₦1.2 trillion in combined assets under management as at 2021.[59] Of these, 30.5% (₦355.8 billion) were bond/fixed-income funds that lent funds directly to businesses and government projects in 2021. When the fixed-income element of mixed funds is considered, the total investment pool available to lend to businesses and government increases accordingly. The equity and mezzanine portion of the asset allocation of mutual funds also go a long way to support businesses and governments.

The combined assets under management of mutual funds represents only about 0.7% of GDP.[60] Accordingly, awareness needs to be improved to encourage increased acceptance of mutual funds as an investment vehicle.

Mutual funds are significant sources of funding in the market with over **₦1.2 TRILLION,** in combined assets under management as at 2021.

[59] Securities and Exchange Commission, 'Monthly Spreadsheet of Collective Investment Schemes', (29 July 2022), available at: https://sec.gov.ng/monthly-spreadsheet-of-collective-investment-schemes/

[60] Computed using 2021 GDP at current market price

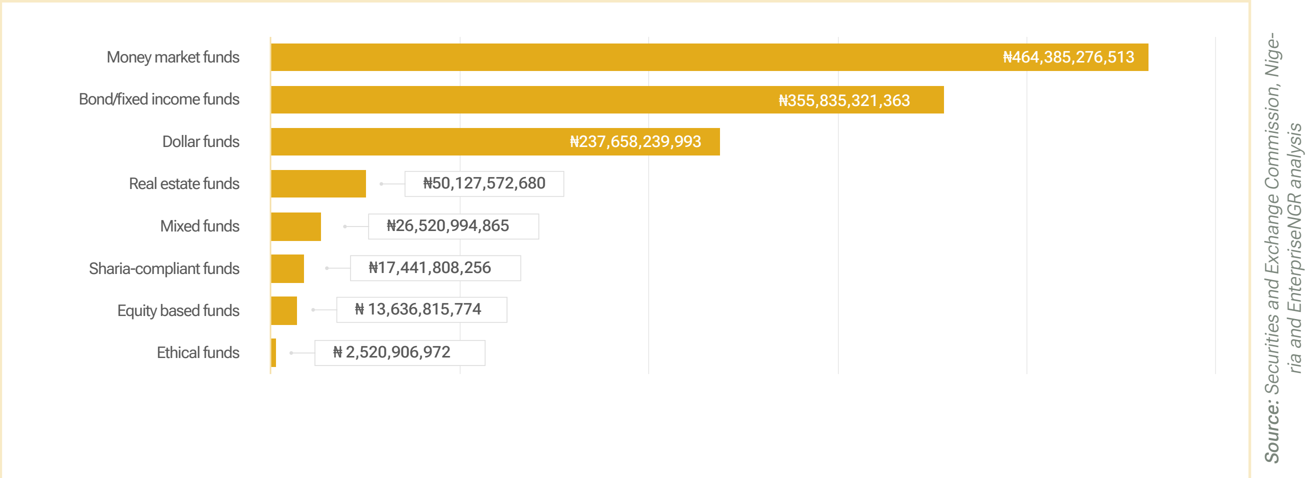


Figure 24: Value of investments of mutual funds

Supporting retail players' investment in securities

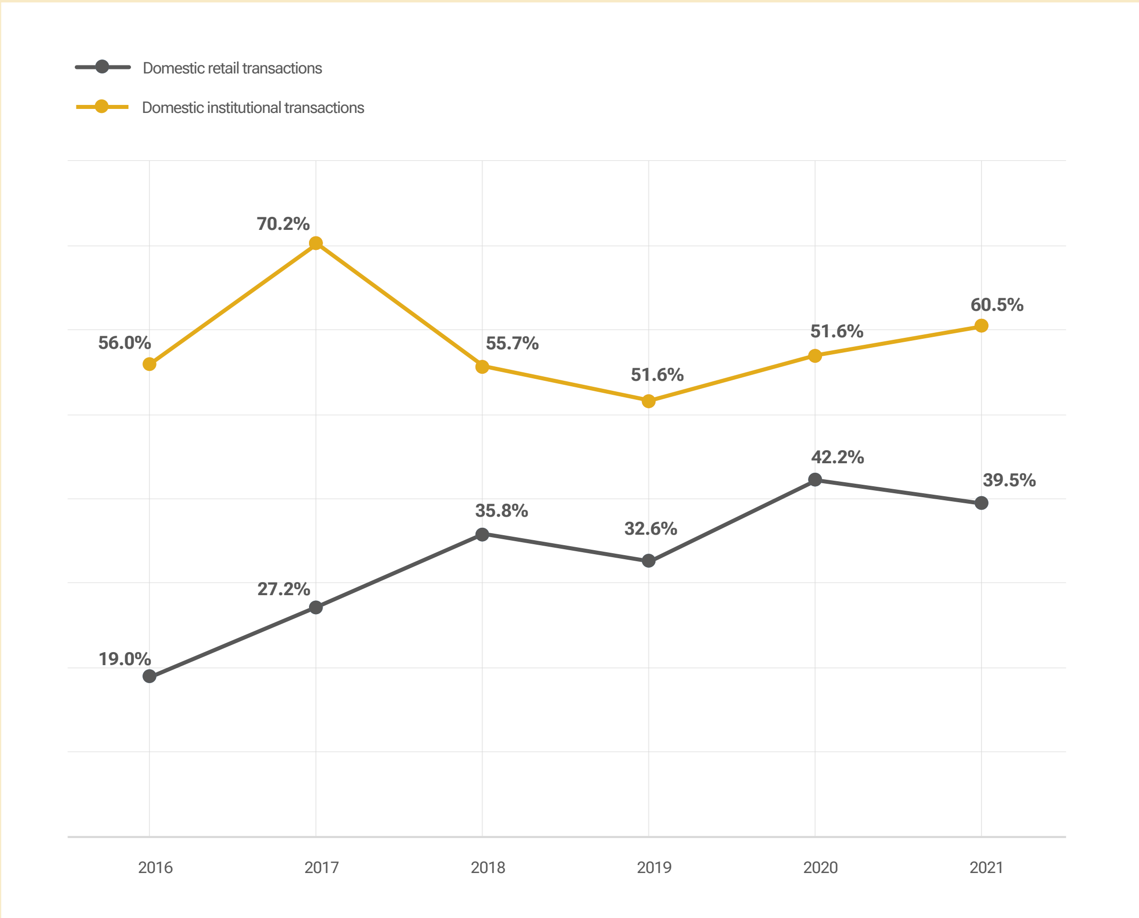
The diverse investment instruments and chain of supporting market operators allow the democratisation of investment opportunities to reach broader segments of retail players.

Domestic transactions on the NGX in 2021 were valued at ₦1.5 trillion. Retail investors accounted for over half a trillion naira, about 40% of this value.[61] Over the last six years, retail participation in the market has improved. In 2016, the share of domestic retail participation was 20% (Figure 25).[62] However, despite the increased value of participation by retail investors, the number of individuals participating in

[61] See footnote 49 above

[62] Computed from Nigerian Exchange Group Limited quarter 4 Fact Sheets; see Nigerian Exchange Limited, 'Market Report: NGX Fact Sheet', (24 August 2022), available at: https://ngxgroup.com/exchange/data/ngx-fact-sheet/

the market remains low with only 5.7 million retail investors trading in the market.[63] This represents just 5.2% of the adult population.[64] There is a need for inclusive programmes to further boost investor participation.



Source: Nigerian Exchange Limited and EnterpriseNGR analysis

Figure 25: Domestic retail and institutional transactions

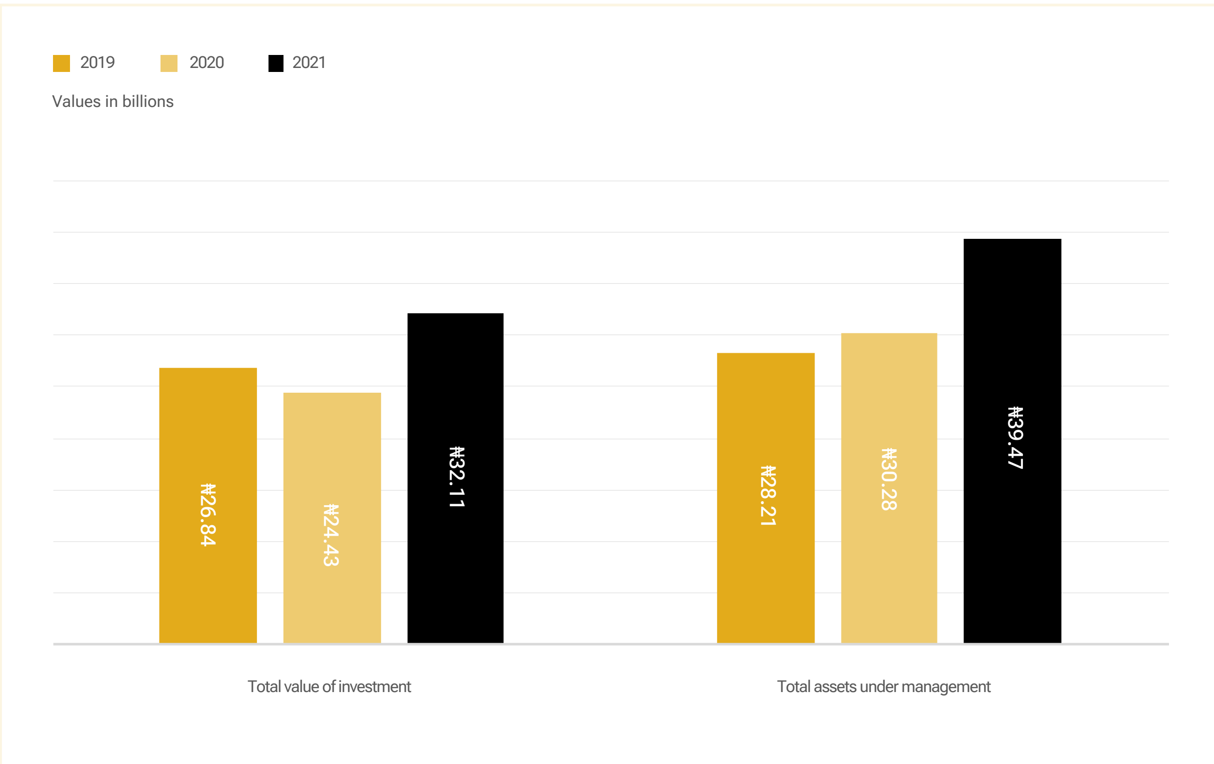
[63] Using total retail accounts that are tradable (Individual- tradable)- 5,681,893, provided by Central Securities Clearing System Plc on 15 August 2022

[64] Using the adult population (aged 18 and above) figure of 109,810,327 as obtained from World Population Review; see World Population Review, 'Nigeria Population Pyramid 2022', (24 August 2022), available at: https://worldpopulationreview.com/countries/nigeria-population

Facilitating private equity investments

Private equity investment is a key source of funding in exchange for equity ownership. For most companies, it is a cheaper source of funding than the money market. Conversely, private equity investment is a viable alternative growth strategy for unlisted companies.

In 2021, there were ten private equity funds in Nigeria's capital markets that had committed approximately ₦65 billion. The value of their investments was ₦32.1 billion, about half of the committed capital, and assets under management were valued at ₦39.5 billion. From 2019 to 2021, the funds' total investments grew approximately 20%, and the growth of total assets under management doubled that, climbing by 40% (Figure 26).[65] These developments demonstrate that private equity funding is gradually evolving in Nigeria as an alternative source of funding to support companies' formation and expansion.



Source: Securities and Exchange Commission, Nigeria and EnterpriseNGR analysis

Figure 26: Private equity funds' total value of investments and assets under management

[65] See footnote 55 above

Driving venture capital investments

The 2021 *Venture Capital in Africa* report[66] shows that 604 companies raised $5.2 billion in 650 deals in Africa. In terms of volume, West Africa attracted 33% of venture capital deals, while Eastern, Northern and Southern Africa attracted 20% each. Nigeria topped African countries and attracted 23% (or 145) of the early-stage deal volume, leading South Africa (17%), Egypt (15%) and Kenya (13%). The value of deals equally saw Nigeria lead the continent, attracting 22% (or $1.1 billion) of total investment.

While a combined 420 VC investors that invested in Africa in 2021 (compared to 333 in 2020) were based in the United States and the United Kingdom, 63 (compared to 22 in 2020) were based in Nigeria and 74 in South Africa, the two countries with the highest number of investors. Country-specific data is not available, but the record shows that in the past and in 2021, private equity (PE)/VC fund managers and PE/VC investment firms played an important role and constituted the larger share of VC investors in Africa (Figure 27).[67]

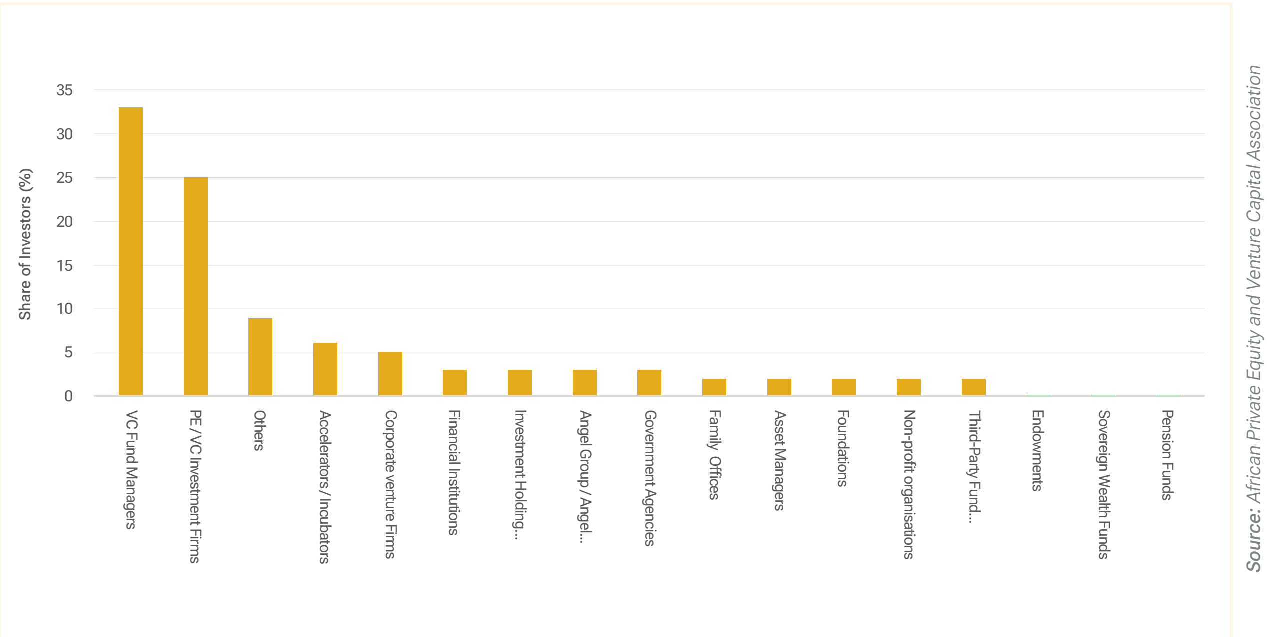


Figure 27: Share of venture capital investors in Africa, 2021.

[66] African Private Equity and Venture Capital Association, 'Venture Capital in Africa Report, April 2022', (6 September 2022), available at: https://www.avca-africa.org/media/2967/62644-avca-avca-venture-capital-in-africa-report-v13.pdf

[67] See footnote 66 above

4.2 Conclusion

Nigeria's Asset Management industry is emerging. Evidence in this report suggests it could make significant potential contributions, but actualising them requires that challenges inhibiting growth are addressed. While there are many challenges, the most important ones that require immediate attention are:

- **Influx of unregulated operators:** The increasing activities of Ponzi schemes not only puts investors' money at risk, but erodes trust and confidence in the entire Asset Management sub-sector, including regulated operators. Regulators should comb the sub-sector to weed out unlicensed operators. The Securities and Exchange Commission's proposed Investments and Securities Bill is a step in the right direction.
- **Low innovation:** Operators should review their business models continuously to identify new customer value propositions in the changing demand environment. An up-to-date business model will identify key funding partners, technology requirements (e.g. custom software to manage retail transactions), know-how, viable channels and growth drivers in the ecosystem that asset managers can leverage to compete and scale.
- **Low participation rate:** Generally, Nigerians have a spending culture and financial literacy is low. Increasing awareness about wealth creation and educating people about how to save and grow investments over time, is necessary. The operators, working in collaboration with industry regulators and associations, should deepen awareness and investment education. Online engagement communities through social media will promote conversations and interactions among investors and prospects. Such platforms will serve as a source of feedback and investment education.
- **Difficulties in the onboarding process:** Not every customer should be required to undergo the identity management process as most market investors are KYC-certified. In addition, the KYC process should utilise centrally coordinated systems for all market institutions.
- **Poor integration of financial services:** Financial services firms, including asset and fund managers, should integrate different financial services, using online platforms to provide a one-stop shop to meet customers' different financial services needs, such as banking, investment, insurance, etc.

- **Shortage of talent:** Not all investment banking and asset management firms have the talent/experts they need to help clients meet investment goals. The volatile nature of the markets further demotivates investment in continuous training and trying out new things. Through training, operators must build resilience for tough times and catch opportunities when markets stabilise. The current 'great resignation' is also affecting the Asset Management sub-sector and industry stakeholders need to devise ways to groom and retain talent.
- **Low product diversification:** Products lack the diversity to satisfy varied investment interests. In line with global practice, the players should work towards meeting various investment needs through product diversification that considers different interests and aspirations, such as ethical principles and ESG mandates.
- **Non-availability of data and low use of research:** More exposure to research to effectively advise clients is required. For varied investment types, industry-wide data (on investors' demographics and transactions) is difficult to obtain and, in most cases, unavailable. Regulators and supervising agencies should coordinate greater efforts to provide adequate and up-to-date industry data.
- **Poor macroeconomic indices:** Negative trends in various macroeconomic indices impact the efficiency of operations. This is fuelling low saving rates. More savings-target reforms like the Pension industry reforms, which raised national savings, are needed. Foreign direct investment can be facilitated through more favourable foreign-exchange policies, improved infrastructure and greater ease of doing business.


Influx of unregulated operators
Low innovation
Low participation rate
Difficulties in the onboarding process
Poor integration of financial services
Shortage of talent
Low product diversification
Non-availability of data and low use of research
Poor macroeconomic indices

Supporting lives

Supporting growth and the economy

Conclusion

5.0

Pensions

KEY FACTS

As at June 2022 pension assets in Nigeria was
₦14.3 trillion

30
Total number of Operators

₦5.9 trillion
in long term capital from people that have 11 to 42 years before retirement

9,586,291
number of pension contributors

221
Growth in number of offices and service centres in 2021

20.6%
of the working population had registered with a pension fund

₦13.4 trillion
Taxes paid in Q4

7.6%
of GDP in 2021.

Globally, the Pension sub-sector plays an important economic role by delivering benefits to retirees, employers and governments. Pension contributions lower tax loads, protect and provide returns on employee retirement savings, reduce employers' retirement burden, and provide long-term investment funds. Up to 30 economies have been able to grow the size of their Pension sub-sector to over 20% of national GDP.[68]

The Pension sub-sector is important, not just because of the financial security it provides to older citizens upon retirement, but because it is also a viable tool for economic growth because of the large pools of long-term capital it creates. These pooled funds can then be made available for investment in the public and private sectors. There is a positive correlation between creating a robust Pension sub-sector and improvements in key macroeconomic indicators. This is linked to a general increase in aggregate savings, which become investible funds to support economic growth.

The Pension sub-sector is one of the success stories of positive reform in Nigeria. Commencing with the Pension Reform Act (PRA) 2004 and its subsequent amendment in 2014, which introduced the contributory pension scheme, significant traction has been achieved in this sub-sector. Prior to the reform in 2004, outstanding pension liabilities faced an estimated ₦2 trillion deficit,[69] which was a result of the unfunded defined benefits pension scheme structure that existed at the time. As at June 2022,[70] pension assets in Nigeria were at ₦14.3 trillion.[71]

While there is enormous opportunity for pensions to grow and provide significant additional benefits, the sub-sector's performance as of June 2022 show that it is making some vital contributions, including the provision of retirement benefits and finance to support national investments, mainly through government and corporate debt securities; and the creation of jobs.

Nigeria's pension sub-sector comprises the National Pension Commission (the regulator), Pension Fund Administrators (20 operators), Closed Pension Fund Administrators (6 operators) and Pension Fund Custodians (4 operators).[72] The sub-sector is regulated by the Pension Reform Act 2014 (PRA 2014).

[68] TheGlobalEconomy.Com, 'Pension fund assets to GDP - Country ranking', (26 August 2022), available at: https://www.theglobaleconomy.com/rankings/pension_funds_assets/

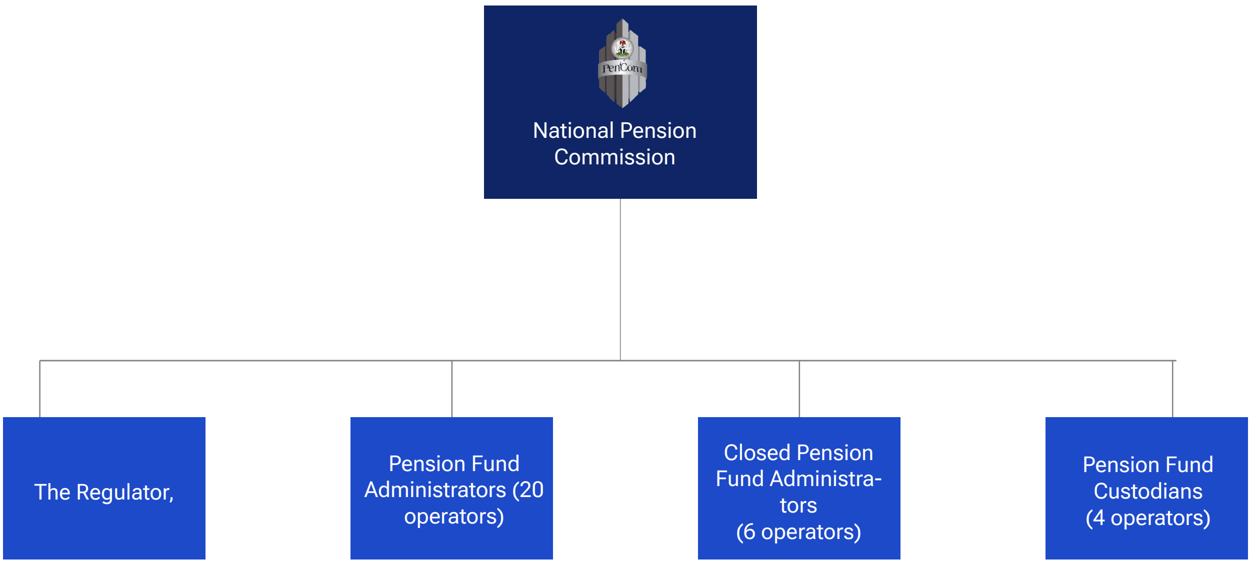
[69] PwC Nigeria, 'Pension Reform Act 2014: The good, the bad and the ugly', (29 August 2022), available at: https://www.pwc.com/ng/en/assets/pdf/tax-bites-july-2014.pdf

[70] While data exists for June 2022 other parts of the report have used 2021 data for full year on year comparison with the previous year

[71] National Pension Commission, 'Unaudited Report on Pension Funds Industry Portfolio for the Period Ended 30 June 2022', (29 August 2022) available at: https://www.pencom.gov.ng/wp-content/uploads/2022/07/Monthly-Summary-June-2022-Upload.pdf

[72] National Pension Commission, 'Home', (26 August 2022), available at: https://www.pencom.gov.ng/

Pension Reform Act 2014 (PRA 2014)



Pensions sub-sector structure

This section presents key aspects of the Pension sub-sector’s contribution to the economy and how it supports lives.

5.1 Supporting lives

Helping employees save for old age and reduce the retirement burden

According to the National Pension Commission's quarterly reports, total pension fund assets under management grew by 3.7% to ₦13.4 trillion in Q4 2021 up from ₦12.3 trillion in Q4 2020. In the same period, 314,626 people were added to the membership pool, which took the total number of pension contributors up to 9,586,291.[73] With the National Bureau of Statistics reporting that 46,488,079 people were employed in Q4 2020, this means that 20.6% of the working population had registered with a pension fund. This is significantly higher than the 10.1% participation rate reported in 2015, when pension fund membership and the number of people in employment were 6,950,503 and 68,921,821 respectively (see Table 3).[74]

Pension funds have grown on the back of retirement savings accounts (RSAs), which make up 99.4% of membership, 99.6% of new registrations and 80% of total fund contributions.[75]

[73] National Pension Commission, 'Publications', (24 August 2022), available at: https://www.pencom.gov.ng/category/publications/ (National Pension Commission 2021 Annual Report)

[74] Numbers of pension contributors obtained from the National Pension Commission annual/quarterly reports (see footnote 73 above), and numbers of people in Employment obtained from the National Bureau of Statistics unemployment/employment survey reports (see: National Bureau of Statistics, 'E-library', (28 June 2022), available at: https://nigerianstat.gov.ng/elibrary

[75] See footnote 73 above

Year	Pension Funds Contributors	People in Employment*	% of the employed who were pension contributors
2015	6,950,503	68,921,821	10.1%
2016	7,412,653	69,602,575	10.6%
2017	7,888,559	68,866,396	11.5%
2018	8,469,257	69,542,944**	12.2%
2019	8,949,536	58,527,277***	15.3%
2020	9,271,665	46,488,079	19.9%
2021	9,586,291	46,488,079***	20.6%

* People working at least 20 hours a week.

**Q3 2018 survey

***Q2 2020 survey

**** The 2020 figure is repeated here as the latest estimate available.

Source: National Pension Commission, National Bureau of Statistics (2015-2021 reports) and EnterpriseNGR analysis

Source: National Pension Commission, National Bureau of Statistics (2015 - 2021 reports) and EnterpriseNGR analysis

Table 3: Pension contributors as a percentage of people in employment

As of December 2021, ₦809.5 billion had been paid in lump sum benefits and a cumulative ₦12.8 billion in monthly pensions to 296,986 retirees in the public and private sectors, with 11.9% of these benefits (₦97.7 billion) being paid in 2021. For retirees who opted for life annuity plans, the industry paid ₦686.8 billion as benefits from inception until December 2021, with 13.1% or ₦90.0 billion of this sum paid in 2021 alone.[76] Under the new contributory pension scheme, retirees are now reasonably assured of payment of their monthly pension benefits, thus improving the quality of their post-retirement life.

[76] See footnote 73 above

As of December 2021, the industry had paid

₦809.5 billion

as lump sum benefits

cumulative

₦12.8 billion

in monthly pension to

296,986

retirees in the public and private sectors

11.9%

of these benefits

₦97.7 billion

were paid in 2021

Retirees (life annuity plans)

The industry had paid

₦686.8 billion

as benefits from inception till December 2021:

with

13.1 %

or

₦90.0 billion

of this sum paid in 2021 alone

5.2 Supporting growth and the economy

Contributing to the national economy through pension fund assets/investments

Nigeria's pension fund assets, valued at ₦13.4 trillion as at December 2021, were equal to 7.6% of GDP in 2021.[77] FGN securities and corporate debt securities accounted for 65.8% (₦8.8 trillion) and 7% (₦943.3 billion), respectively of total pension fund assets.[78] This underscores the growing importance of the Pension sub-sector to government debt finance and the potential for greater impact on national infrastructure and development projects.

In Nigeria, asset diversification away from government securities is narrow. Pension fund contributions can grow and contribute to long-term capital accumulation through corporate debt securities beyond the 7.6% share of total assets recorded in 2021.

Total pension fund assests

FGN securities of

65.8%
(₦8.8 trillion)

FGN corporate debt securities of

7%
(₦943.3 billion)

[77] 2021 GDP at current market price
[78] See footnote 73 above

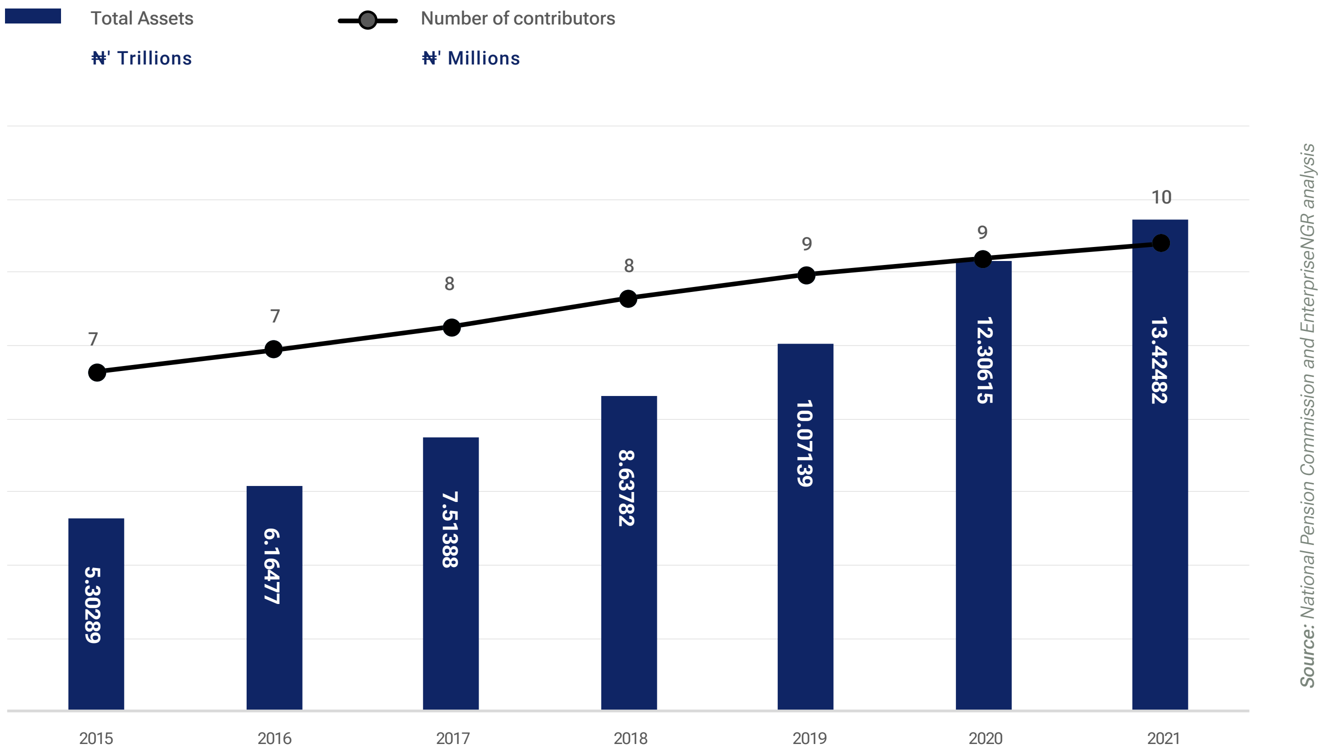


Table 3: Pension contributors as a percentage of people in employment

As the number of contributors increases, so do total assets (Figure 28).[79] The Pensions sub-sector has the potential to grow five times to reach approximately ₦65 trillion if all 46.5 million employed Nigerians are enrolled in pension schemes.

[79] Computed using National Pension Commission annual/quarterly reports; see footnote 73 above.

Contributing to the accumulation of long-term capital in the economy

A critical mass of Nigeria's population is made up of young people. This is reflected in the fact that 72.9% of RSA contributors are under the age of 40.[80] Of the total pension assets of ₦13.4 trillion, 71% (₦9.5 trillion) are in active RSA funds (belonging to people still in active employment), while only 8% (₦1.1trillion) are held by people who have already retired.[81] The bulk of active RSA funds (62.33% or ₦5.9 trillion) are in RSA Fund I and II (representing contributors below the age of 49). Essentially, the Pensions sub-sector has a pool of ₦5.9trillion in long-term capital from people that have 11 to 42 years to go before retirement. This suggests that a larger share of pension funds could be used to finance long-term investments since the class of the contributors permits pension fund administrators and managers to hold assets over longer-term horizons.

Contributing to employment generation

The Pensions sub-sector in Nigeria has experienced significant growth since 2007, not only in terms of total investments and assets, but also in the spread of pension fund administrators' presence across the country. Pensions fund administrators registered 184 offices and service centres in in 2007. By 2021, the number of offices and service centres had grown by 221% to reach 591.[82] There has been a significant rise in the number of persons employed in the sub-sector as a result.

[80] National Bureau of Statistics, 'Labour Force Statistics: Unemployment and Underemployment Report (Q4 2020)', (28 January 2022), available at: https://nigerianstat.gov.ng/elibrary/read/1238

[81] See footnote 73 above

[82] See footnote 73 above

5.3 Conclusion

Reforms in Nigeria's Pensions sub-sector have brought about significant transformation and had a notable impact on the investment landscape, people (retirees) and the business sector. However, performance is still below potential, and the sub-sector is ranked 59th among 82 global peers based on pension fund assets to GDP.[83] Challenges peculiar to the domestic sector that need to be addressed to catalyse further development include:

- **Persistent scepticism about the pension system in the country:** The current pension system attracts bad publicity from the old government-based pension scheme, which was associated with many difficulties and inefficiencies linked to the inability to provide pension benefits to retirees. Intense publicity is still required to shift the perceptions and increase trust and confidence in the new system. In addition, public awareness of the importance and benefits of pensions should be increased.
- **Low diversification of pension fund investments from government securities:** Pension funds have a high propensity for contributing to long-term projects and developments through investments in corporate bonds and funds. An increase in controlled investment limits for corporate bonds and investment funds, particularly for long-term investments in the primary securities market, will further facilitate growth in capital accumulation in the real economy.
- **Inflation and currency devaluation:** The current inflationary trend in Nigeria and devaluation of the naira have adversely impacted the future value of pension assets. Contributors are rightfully beginning to fear their pensions will not be worth much when they become eligible to access them. There is need for government to put in place measures to curb inflation and maintain a stable currency environment. Alternatively, regulations to encourage hedging mechanisms should be put in place for pension fund administrators.
- **Low cooperation from employers in the public and private sectors:** The number of pension contributors is far below the number of the employed: approximately 20%. According to the National Pension Commission, while 25 states have enacted laws on the Contributory Pension Scheme (CPS) as at Q1 2022, only five states are compliant with respect to payments under the

[83] See footnote 68 above

CPS.[84] State governments need to be encouraged to do better with respect to pension compliance. A special unit, working closely with employers and supervised by the Commission to broaden the pension base, can help identify challenges employers face and provide appropriate incentives beyond a reliance on mandatory compliance tools.

- **Low pension penetration in the informal sector:** A significant proportion of Nigeria's labour force is in the informal sector. The sector must explore ways to mainstream informal workers, including leveraging technology and improved publicity. Beyond improving awareness, incentives that further simplify the onboarding and collection and payment processes could nudge many informal-sector participants to accept micro-pension plans.
- **Limited investment options and mono products:** The pension system does not provide room for individuals and business owners that earn in cryptocurrencies and other forms of exchange to contribute to pension funds in earned currencies. Nigeria's pensions product is homogenous. The current system limits pension fund administrators from creating unique products. Different investments should be available to contributors.
- **Long regulatory processes hampering service delivery:** Pension fund administrators require regulatory approval before carrying out almost all outbound financial transactions. Different levels of responsibility can be delegated to administrators based on asset size, with a view to sanctioning any erring operators of malpractices.
- **Poor macroeconomic environment:** Many Nigerians are not earning incomes because of a lack of jobs. For some that do earn incomes, their pay is insufficient to allow for pension contributions. Many government policies reduce earnings for the working population. The multiplicity of taxes has a reducing effect on disposable income and the capacity to save. The general macroeconomic environment should create and enhance economic prosperity.

[84] National Pension Commission, 'First-Quarter 2022 Report', (29 August 2022), available at: https://www.pencom.gov.ng/wp-content/uploads/2022/06/Q1-2022-APPROVED-REPORT-1.pdf


Persistent scepticism about the pension system in the country
Low diversification of pension fund investments from government securities
Inflation and currency devaluation
Low cooperation from employers in the public and private sectors
Low pension penetration in the informal sector
Limited investment options and mono products
Long regulatory processes hampering service delivery
Poor macroeconomic environment

Contributing to national investments

Conclusion

6.0

Non-interest Finance

KEY FACTS

Three licensed fully-fledged Islamic banks and four Takaful Insurance firms

most of all commercial banks have a strong non-interest product offering

₦17.4 billion

accumulated by the six Sharia-compliant mutual funds listed on the market

4

Significant sovereign sukuk bonds have been issued to support infrastructure projects in the country between 2017 and 2021

17,353

Sharia-compliant mutual funds unit holders at the end of 2021

₦448.1 billion

of total assets of non-interest banks

₦188.1 billion

Loan facilitated

The Non-interest Finance sub-sector is growing in importance across the world. Non-interest finance traces its origins to religious beliefs, but its importance and economic significance extend far beyond religion. Different non-interest finance instruments and products are emerging with diverse impact on Financial Services.

Islamic Finance, one of the primary forms of non-interest banking, is based on four pillars:

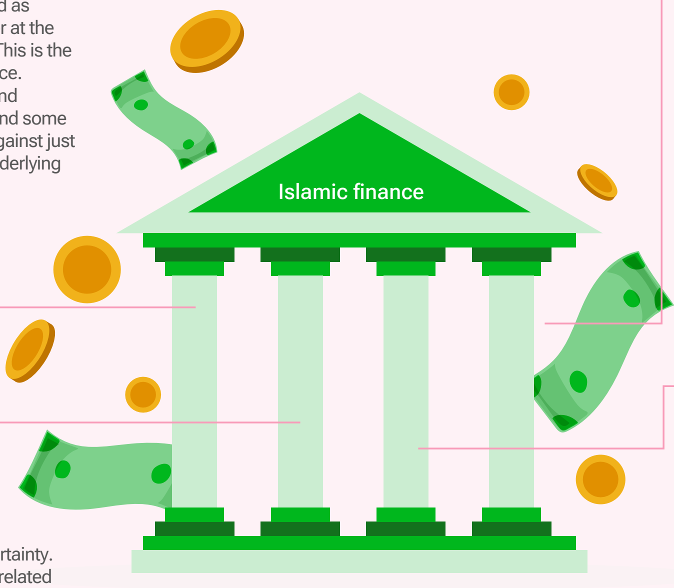
Islamic finance, one of the primary forms of non-interest banking, is built on four major pillars:

Interest (Riba)

the lending of money with an interest charge for its use is strictly prohibited in Islam. It is considered exploitative and interpreted as mostly favouring the lender at the expense of the borrower. This is the main pillar of Islamic finance. Accordingly its products and solutions are created around some form of profit sharing as against just interest, even when the underlying business is not profitable.

Speculation (Maysir)

The rules of Islamic finance ban speculation and gambling to prevent creation of wealth from chance instead of from productive activity.



Uncertainty and Risk (Gharar)

Islamic finance prohibits excessive risk and/or uncertainty. Each transaction must be related to an actual economic transaction with manageable risks.

Investing only in businesses that are permissible (Halal)

Investments in certain industries are prohibited (Haram) in Islamic finance. These industries include weapons, alcohol, gambling, pork, adult entertainment etc.

- Interest (Riba): the lending of money with an interest charge for its use is strictly prohibited in Islam. It is considered exploitative and interpreted as mostly favouring the lender at the expense of the borrower. This is the main pillar of Islamic finance. Accordingly, its products and solutions are created around some form of profit sharing.
- Uncertainty and risk (Gharar): Islamic finance prohibits excessive risk and/or uncertainty. Each transaction must be related to an actual economic transaction with manageable risks.
- Speculation (Maysir): the rules of Islamic finance ban speculation and gambling to prevent creation of wealth from chance instead of from productive activity.
- Investing only in businesses that are permissible (Halal): investments in certain industries are prohibited (Haram) in Islamic finance. These industries include weapons, alcohol, gambling, pork and adult entertainment.

Nigeria's non-interest finance ecosystem is made up of three licensed fully-fledged Islamic banks and four takaful insurance firms. It is important to note that almost all commercial banks have a strong non-interest product offering. Nigeria's Non-interest Finance sub-sector is accelerating ethical investments and promoting financial inclusion. Although the sub-sector's contributions are still small, trends suggest it could have significant impact on the economy in the near future.

This section presents key segments of the Non-interest Finance sub-sector and its impact on the Nigerian economy, underscoring the sub-sector's impact in terms of contributing to national investments and financial inclusion.

6.1 Contributing to national investments

Accelerating ethical investments

Nigeria has made significant progress in Islamic finance and non-interest banking since 2008, facilitated by developments in the capital markets and banking system. Notable players are three non-interest banks (Jaiz Bank plc, Taj Bank Ltd, and Lotus Bank Ltd), and four takaful insurance firms (Jaiz Takaful Insurance plc, Noor Takaful Insurance plc, Salam Takaful Insurance Ltd, and Cornerstone Takaful Insurance Ltd). Other participants in the market include non-interest window banks and non-interest microfinance banks. Four significant sovereign sukuk bonds have been issued to support infrastructure projects in the country between 2017 and 2021. Nigeria gained five spots to rank 21st out of 48 countries on the Islamic Finance Country Index in 2020.[85]

Under the Retirement Savings Account (RSA) Fund VI structure facilitated by the National Pension Commission and other financial regulators, pension contributors may invest in ethical funds or non-interest investments. Pension managers are seizing the opportunity to meet heightened interest for Sharia-compliant investments.

In 2020, the Islamic Real Estate Investment Trust became the first Sharia-compliant alternative asset class in Nigeria, adding to the investment options for Islamic finance and non-interest banking. In 2021, the NGX Lotus Islamic Index, which tracks the performance of Sharia-compliant equities, grew to 3,009.51 points. This represents 5.74% annual growth, making it one of the best-performing sub-indexes on the market.[86]

[85] Edbiz Consulting, 'Islamic Finance Country Index – IFCI 2020', (June 2022), available at: https://www.gifr.net/publications/gifr2020/ifci.pdf

[86] See footnote 47 above

Country	Rank
Malaysia	1
Indonesia	2
Iran	3
Saudi Arabia	4
Sudan	5
Pakistan	6
Qatar	13
Kazakhstan	14
Oman	15
Jordan	16
Egypt	17
United Kingdom	18
Nigeria	21
United States	22
Tunisia	23
Kenya	24
Ghana	43
Mauritius	44
China	45
France	46
Gambia	47
Spain	48

Source: *Edbiz Consulting and EnterpriseNGR Analysis*

Table 2: Islamic Finance Country Index, 2020

Contributing to the national investment pool and financial inclusion

Non-interest finance provides inclusion for people whose values and ethics prevent them from taking part in conventional financial services. Bringing more participants

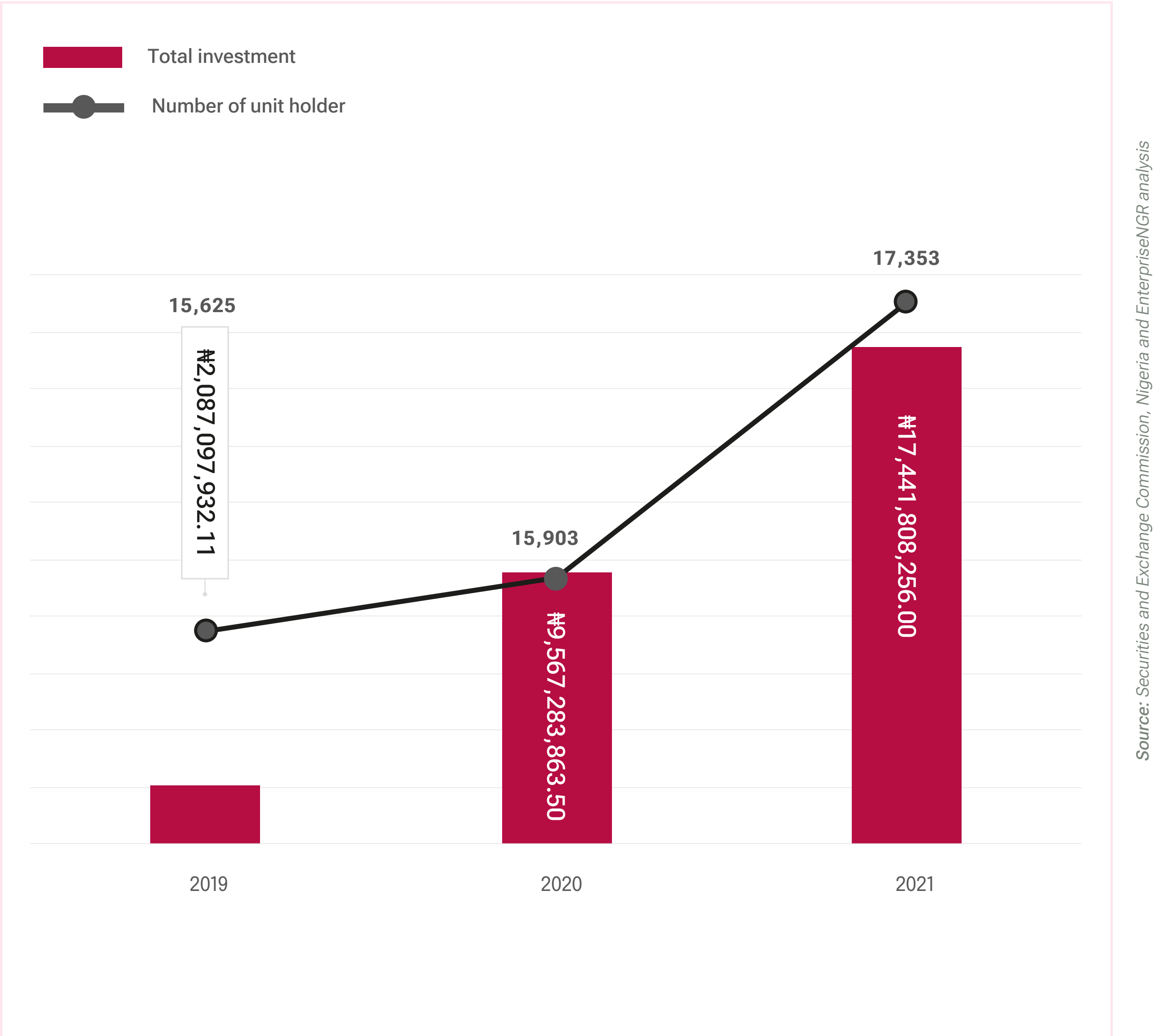


Figure 27: Total value of investment and number of unit holders of non-interest finance funds

into the market means more people can be financially empowered to save, borrow and invest, thereby contributing to national output. The six Sharia-compliant mutual funds listed on the market accumulated ₦17.4 billion in total investment by December 2021. The number of unit holders at the end of 2021 was 17,353, up from 15,625 in 2019, when there were only two funds with total investment under ₦2.5 billion (Figure 27).[87]

In 2021, the assets of non-interest banks were valued at ₦448.1 billion, compared to ₦300.2 billion in 2020. The banks facilitated loans totalling ₦188.1 billion, up by 73.6% from ₦108.3 billion the previous year.[88]

Given the current trends, non-interest finance will continue to positively impact the investment landscape and contribute to people's lives and the productive sector.

6.2 Conclusion

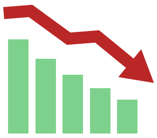
The Non-interest Finance sub-sector in Nigeria, though fledgling and growing, is not without its challenges. These require industry stakeholders' attention to actualise the sub-sector's enormous potential and expected benefits to the economy and people. At this nascent stage, addressing key challenges will widen growth opportunities for industry players. Areas of focus should include:

- **Insufficient awareness:** The level of awareness of non-interest finance products and services should be raised. More important is the need to provide improved enlightenment to the general public to provide widespread understanding that although non-interest finance originates from religious principles, it is not an attempt to bring undue religious influence into a secular society like Nigeria's.

- **Low level of planning for talent pipeline:** As the sub-sector grows, the number of experts required to support the increasing demand for quality services will increase. Growing talent equipped with skills for non-conventional banking requires adequate planning. Knowledge about non-interest finance is limited among industry players, investors, operators and issuers. As a result, operators either shy away from investments or take longer in contract processing and reviewing. Finance professional bodies should include courses on non-interest finance in their curriculums.

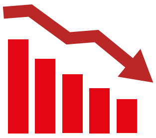
[87] See footnote 59 above
[88] See footnote 7 above

- **Slow pace of financial innovations:** Non-interest finance is new in Nigeria and innovation is not widespread. To catch up with the rest of the world, operators and regulators must work at the same pace and be more collaborative in introducing new products to the market. More innovative products are urgently needed. A critical success factor is the level of readiness to adapt to the changing demand environment without losing focus of the principles and elements upon which non-interest finance operates.
- **Lack of short-term instruments and high frequency of issuance of instruments:** Non-interest finance lacks liquidity because of the absence of short-term instruments. There is a limited supply of Sharia-compliant instruments such as short-term papers, risk-free sukuk, hybrids and other subordinated debt structures. Also, the fact that participation in the conventional interbank market is not permissible in Islamic banking is a major challenge. As no short-term bridge exists for managing occasional liquidity squeezes, there is a need for the creation of a specialised halal overnight market and to allow compliant short-term instruments to be traded. Long-term instruments (bonds) are issued at most once a year. Increasing the frequency of issuance of long-term instruments can increase participation and market activity.
- **Low level of collaboration:** Collaboration to achieve synergy and promote industry growth is required among players — within and among operators and regulators in the sub-sector. They should promote common frameworks and standards for instrument contracts.

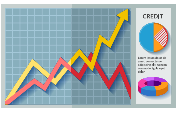


Insufficient awareness

Low level of planning for talent pipeline



Slow pace of financial innovations



Lack of short-term instruments and high frequency of issuance of instruments

Low level of collaboration

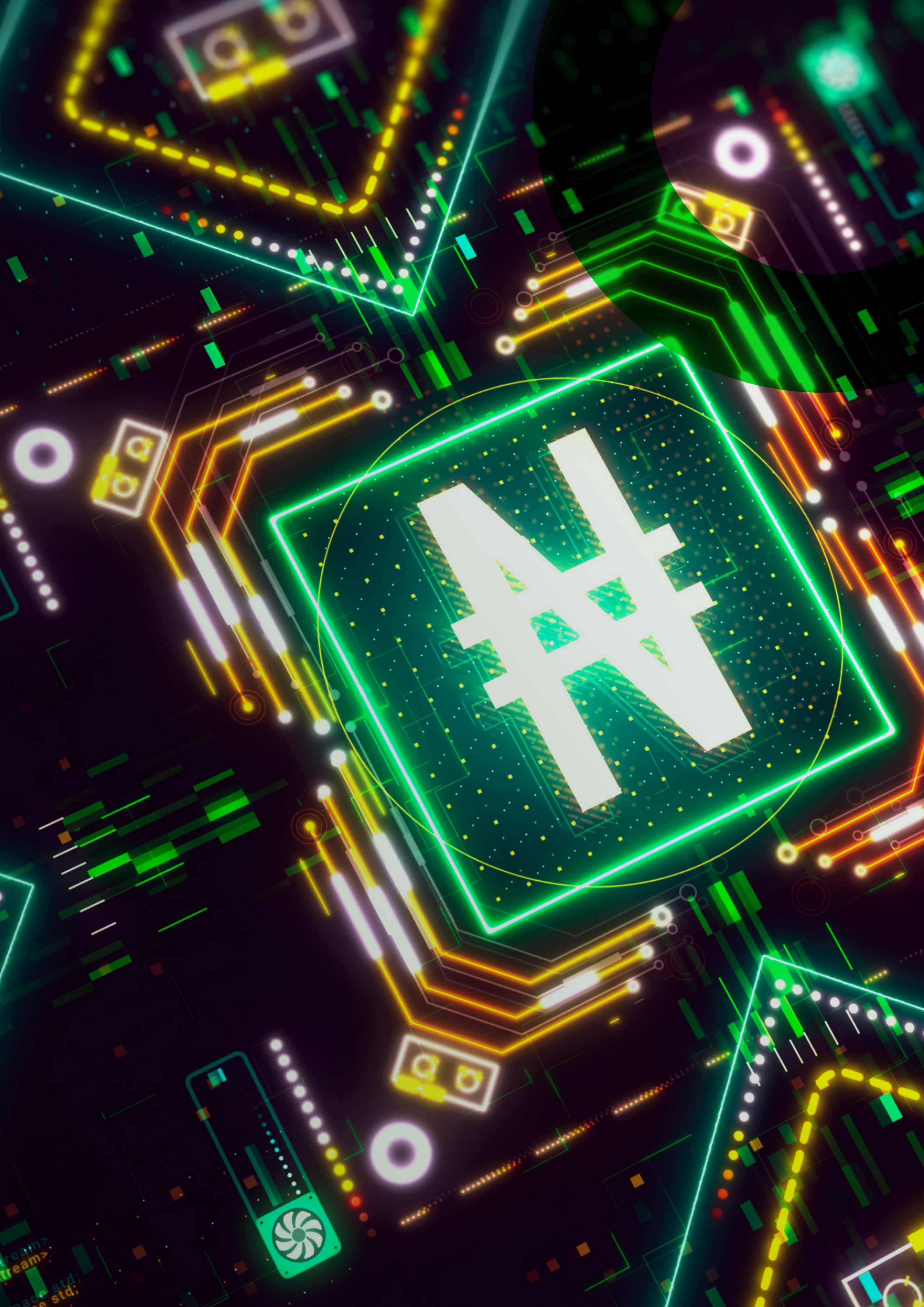
Supporting the business ecosystem

Improving lives

Conclusion

7.0

FinTech



KEY FACTS

$1.3 billion
FinTech investment

$1.8 billion
General tech investment

14%
of available jobs between January and July 2021 were in the IT and Telecommunications industry

34.6%
of all investments on the continent came to Nigeria

164
Innovation hubs in Nigeria

4
unicorns in Nigeria. 55.6% of total unicorns on the continent.

73%
of all tech investments was in FinTech

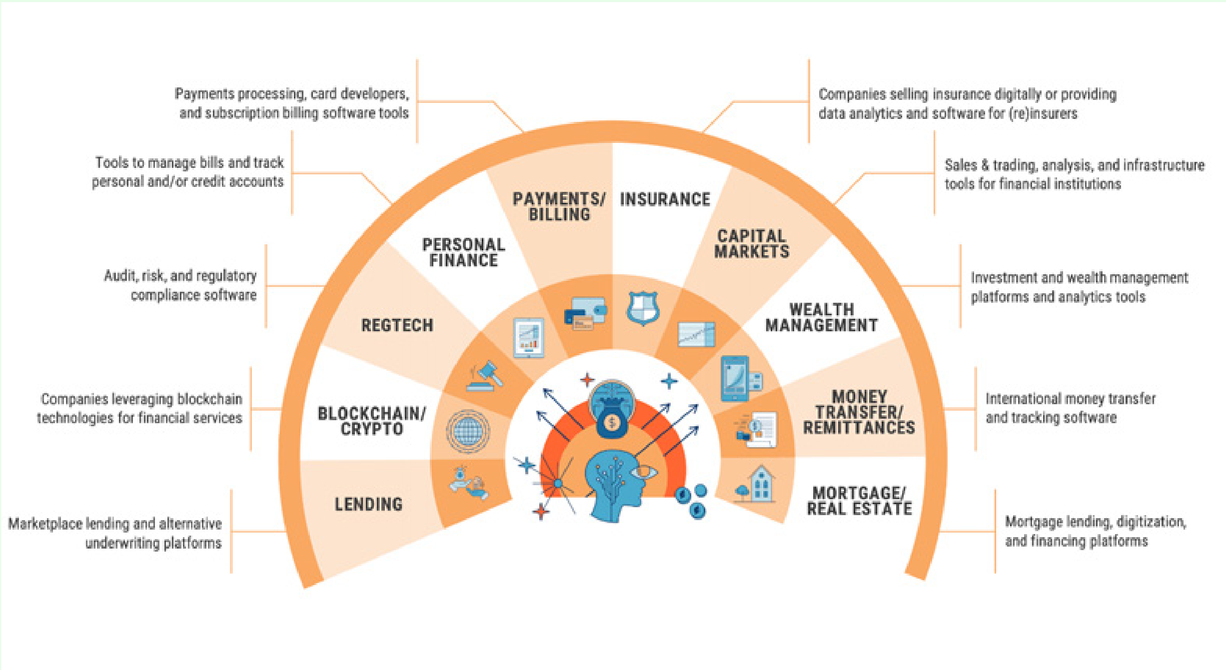
Tech companies with a valuation above
$1 billion

Interswitch | Chipper | OPay | flutterwave

Companies on the road to become unicorns

kuda. | paga

Financial technology (FinTech) is the use of technology to solve traditional financial problems. This sub-sector with its multi-sector reach is disrupting the way financial services are delivered to a wider class of customers.[89] In banking, FinTech has helped reduce and in some cases eradicate the long queues at bricks-and-mortar locations through the introduction of online banking and mobile banking. Insurtech solutions are helping more people and organisations get the protection they require against losses, while payment solutions are making it easier for both vendors and clients to receive and make payments. FinTech supports the entire e-commerce ecosystem and is generally opening the world to more efficient solutions. Though the FinTech space is rapidly expanding, its verticals (segments) can be seen in the figure that follows.[90]



Source: CB Insights FinTech Report Q2 2019

Figure 29: FinTech segments

[89] S&P Global, 'An introduction to fintech: Key sectors and trends, October 2016', (16 August 2022), available at: https://www.spglobal.com/marketintelligence/en/documents/an-introduction-to-fintech-key-sectors-and-trends.pdf

[90] CB Insights, 'Global Fintech Report Q2 2019', (16 August 2022), available at: https://fintek.pl/wp-content/uploads/2019/08/CB-Insights_Fintech-Report-Q2-2019.pdf

Partech's *Africa Tech Venture Capital Reports*[91] show there was a significant spike in the number of FinTech (financial inclusion-focused-only tech companies) deals on the continent as well as in the quantum of capital raised between 2020 and 2021. The number of deals increased by 135.5% to 219 in 2021, while the value of capital raised increased by a whopping 812.9% over the same period. These investments have come from top local and foreign investors, underscoring the increasing interest in Africa.

The origin of FinTech in Nigeria can be traced to the 1990s when banks embraced technology as an enabler of core operations to drive efficiency. Since then, the Nigerian FinTech ecosystem has undergone rapid evolution, with an attendant growth in the number of pure FinTech firms from just a few such as Systems Spec, Interswitch, and eTranzact in the 1990s to 210-250 in 2021,[92] which are involved in different areas of financial services.

Widespread mobile telephone adoption was followed by the emergence of multiple new use cases across payments, insurance, credit, investment, and support services such as KYC and digital identity. The penetration of cryptocurrencies and blockchain technologies has added another layer of services to the FinTech ecosystem.

Africa has witnessed increased growth in the number of technology companies driving financial inclusion that have attracted significant amounts of equity funding from venture capitalists. In 2019, Nigeria's FinTechs (in this case, financial inclusion-focused-only tech companies) raised $463.1 million,[93] while in 2020, $134.6 million worth of investment was raised.[94] Following the shock caused by the global pandemic in 2020, there was a quantum leap in investment with $1.3 billion being the total secured in 2021. Nigeria leads Africa's tech VC investment. Of the US$5.2 billion attracted to the continent, $1.8 billion, 34.6%, was invested in Nigeria, which is more than the $1.6 billion invested in South Africa, Kenya and Ghana combined (see Table 4).[95]

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[91] See: Partech, '2021 Africa Tech Venture Capital Report', (15 August 2022), available at: https://partechpartners.com/2021-africa-tech-venture-capital-report/ (and) Partech, '2020 Africa Tech Venture Capital Report', (15 August 2022), available at: https://partechpartners.com/2020-africa-tech-venture-capital-report/

[92] The Fintech Times, 'Fintech: Middle East & Africa 2021- the fintech landscape, key spotlight markets and future trends report', (25 August 2022), available at: https://thefintechtimes.com/country-reports/

[93] Partech, '2019 Africa Tech Venture Capital Report', (15 August 2022), available at: https://cdn-website.partechpartners.com/media/documents/2020.01_Partech_Africa_-_2019_Africa_Tech_VC_Report_FINAL.pdf

[94] Partech, '2020 Africa Tech Venture Capital Report', (15 August 2022), available at: https://partechpartners.com/2020-africa-tech-venture-capital-report/

[95] See footnote 91 above

	NIGERIA	SOUTH AFRICA	EGYPT	KENYA	SENEGAL	GHANA	
FINTECH	1 320,6	588,7	294,0	245,4	331,9	97,0	**2 877,6**
ENTERPRISE	35,0	63,8	25,6	96,0	1,7	4,9	**227,0**
E/M/S/COMMERCE	80,7	4,8	156,5	10,3	1,7	1,2	**255,1**
HEALTH TECH	44,2	77,4	32,8	20,0	-	50,2	**224,5**
LOGISTICTECH	38,3	1,2	64,5	8,1	2,4	10,1	**124,6**
EDTECH	240,5	27,5	10,9	4,5	-	0,3	**283,6**
CLEANTECH	5,5	17,1	-	69,3	14,2	-	**106,0**
AGRITECH	21,0	2,5	1,5	91,1	0,9	2,4	**119,3**
ENTERTAINMENT	4,4	7,6	20,6	1,0	-	-	**33,6**
MOBILITY	3,0	15,5	30,5	2,0	0,2	-	**51,2**
INSURTECH	4,3	21,7	2,6	2,3	-	0,7	**31,5**
CONNECTIVITY	1,5	0,9	2,8	21,0	-	-	**26,1**
HW & ELECTRONICS	0,2	3,0	9,4	-	-	-	**12,6**
TOTAL	1 799,2	831,5	651,6	570,9	352,8	166,6	4 372,6

Source: Partech

Table 4: Africa tech VC equity funding by country and sector, 2021 ($' millions)

Approximately 73%, that is, $1.3 billion, of the total tech VC investment in Nigeria was attracted by FinTech (financial inclusion-focused) companies. The FinTech sub-sector features as one of the country's primary sources of capital inflow and equity investment.

As at August 2022, Nigeria has four unicorns (start-up tech companies valued at more than $1 billion) — Interswitch, Chipper Cash, Flutterwave and Opay. A number of other unicorns are in the works with Kuda recently valued at $500 million after its last round of fund raising and Paga also well on track. While Covid-19 has had a devastating impact on economies and businesses, the ICT/FinTech sub-sector seems to have benefitted from the pandemic. Due to lockdowns and the adoption of remote work models, which drove slow-downs in traditional businesses, adoption of online/e-commerce alternatives accelerated significantly and with this acceleration came increased trust in online platforms. FinTech is the primary enabler of e-commerce and it is not surprising that we are seeing increased interest in Nigerian FinTechs from both local and international financiers.

Government has played a critical role in supporting the growth of the FinTech sub-sector as well as regulating its activities in Nigeria. This can be seen in several policies and guidelines introduced by regulatory agencies, including the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), and the National Information Technology Development Agency (NITDA).

FinTechs have demonstrated strong commitment to the push for an inclusive economy in Nigeria and are now a critical driver of the economy. Their service offerings to people, businesses and governments are delivered through a variety of business channels, including business-to-business (B2B), business-to-consumers (B2C), business-to-government (B2G), and business-to-business-to-consumers (B2B2C).

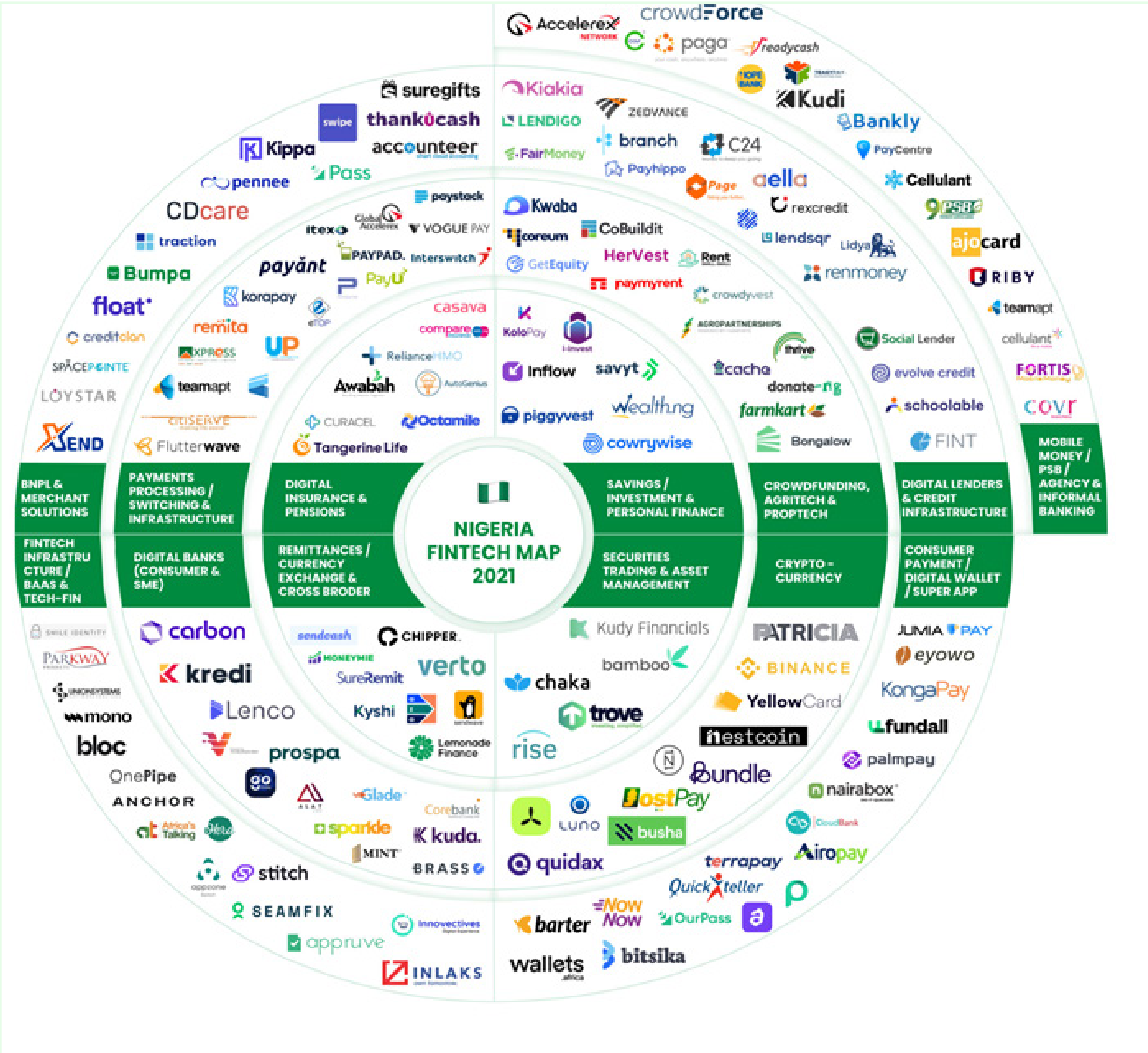
This section analyses FinTech segments and their contribution to the Nigerian economy.

7.1 Supporting the business ecosystem

Supporting the business ecosystem

There is a web of financial technology companies providing different services to the domestic business ecosystem, serving consumers directly and supporting companies by facilitating service delivery. As of 2021, Nigeria's FinTech activity coverage ranged from payments processing, digital insurance and pensions, savings/investment and personal finance, to remittances, buy now and pay later (BNPL) and payment service banking. Specifically documenting all the FinTechs in Nigeria and their respective areas of focus is beyond the scope of this report, but Figure 30[96] provides a useful snapshot of FinTechs organised by category.

[96] By Segun Adeyemi; see Fintechnews Africa, 'Momentum Continues in Nigeria's Fintech Ecosystem', (25 August 2022), available at: https://fintechnews.africa/40544/fintech-nigeria/momentum-continues-in-nigerias-fintech-ecosystem/



Source: Fintechnews Africa

Figure 30: Nigerian FinTech Map, 2021

Building communities of innovators

The FinTech boom unfolding in Nigeria and the rest of Africa continues to create a new dynamic ecosystem of entrepreneurs. This has seen a convergence of developers, business analysts, investors, product managers and others, and the number of FinTechs in Africa continues to grow. There were 1,031 active innovation hubs across Africa as of October 2021, 53% of which were mainly co-working spaces and communities, while another 45% provided programme support and 2% catered to other needs.[97] Nigeria boasts the highest number of innovation hubs in Africa, cementing its place as a hotspot for FinTech start-ups (Figure 31).[98] These hubs and accelerators remain important drivers of talent identification and skills acquisition, support the rapid development of talent in both technical and non-technical skills.

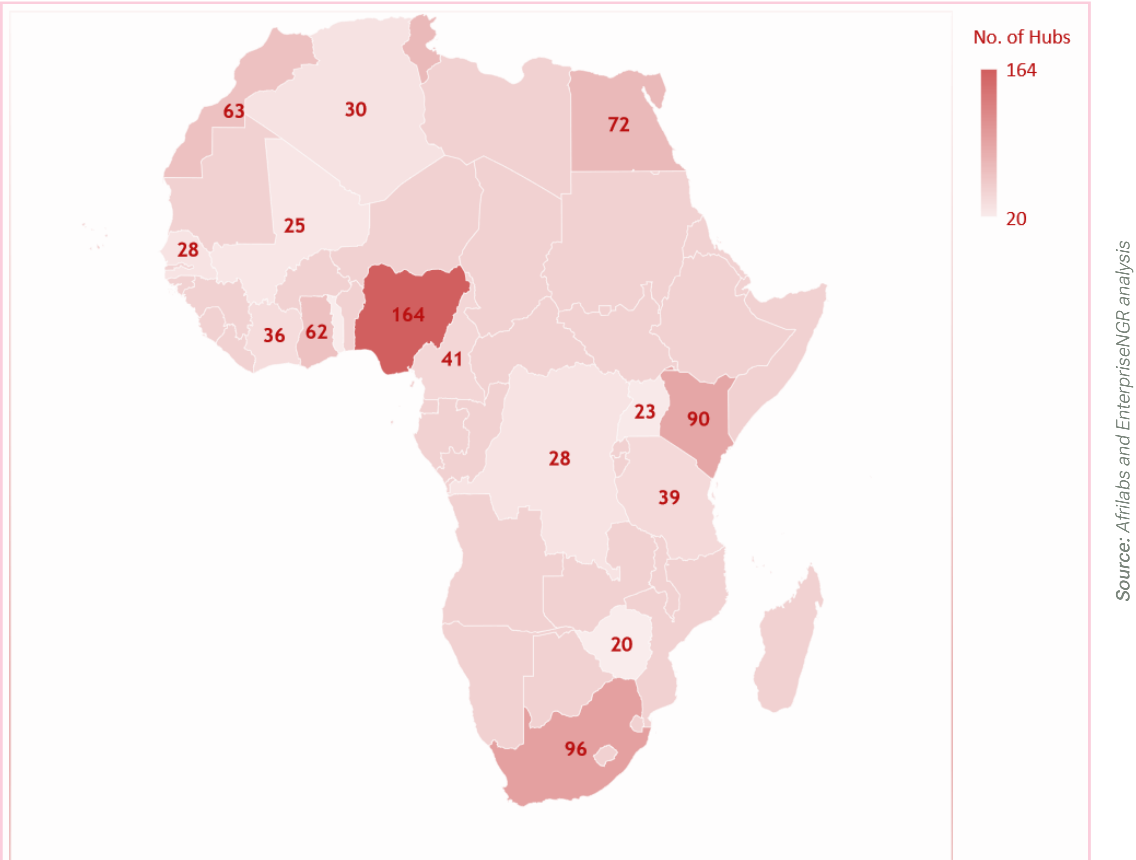


Figure 31: Innovation hubs supporting FinTechs across Africa, 2021

[97] Afrilabs, 'Bolstering innovators in Africa: Innovation hubs' catalytic role as ecosystem support organisations', (14 August 2022), available at https://afrilabs.com/ecosystem-insights/

[98] Map constructed using Afrilabs data; see footnote 97.

7.2 Improving lives

Improving lives and livelihoods

FinTechs play a critical role in enabling Nigeria's drive for financial inclusion in credit, payments, savings, investment products, and technology-enabled on-demand services.

The rise of FinTechs is fuelling strong growth in digital payments. Spending on electronic bills, utilities and others grew by 53.2% from ₦1.5 trillion in 2020 to ₦2.3 trillion in 2021. This is significantly higher than the 30.5% growth recorded in 2019 with ₦652.6 billion transaction value up from ₦500.2 billion in 2018. Mobile-based transactions recorded an upsurge, from ₦292 billion in 2018 to ₦3.1 trillion in 2020. By 2021, the value of mobile inter-scheme transactions grew to ₦8.1 trillion, a whopping 164.5% increase from the year before (Figure 32).[99]

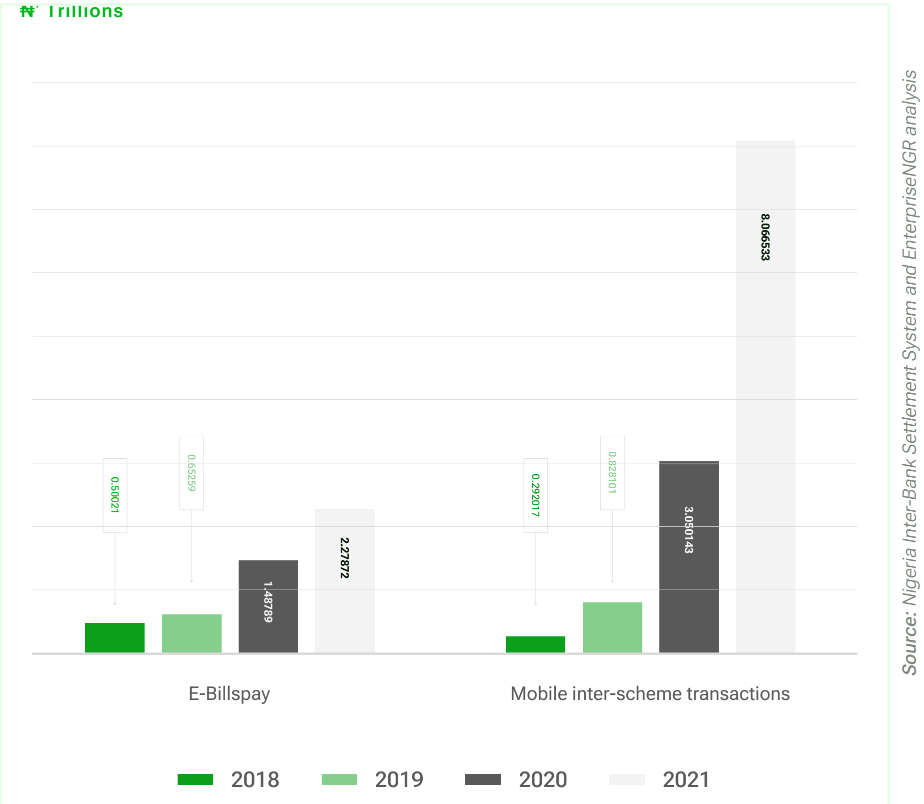


Figure 32: E-BillsPay and mobile inter-scheme transaction, 2018-2021

[99] See footnote 27 above for mobile inter-scheme transactions

While traditional banks are using agency banking to take financial services to rural areas, FinTechs are expanding the use cases for agency banking and leveraging widespread access to mobile telephony to support livelihoods in these locations and among vulnerable groups. In 2020, roughly 84% of the 23.7 million Nigerians that had a bank account and lived in rural areas were served by financial services agents.[100]

Other avenues through which the FinTech sub-sector contributes to lives include buy now and pay later (BNPL) schemes, ride hailing, and other on-demand services. Few adult Nigerians have credit cards and support for consumer lending is poor among banks. Through merchant solutions FinTechs are providing BNPL services. As of 2021, Ventures Africa identified ten platforms operating BNPL services.[101] Through these platforms, consumers can access products ranging from household appliances, food, groceries, furniture, mobile phone, fashion and beauty products to automobiles. Given increasing adoption, the gross merchandise value of BNPL has been projected to grow from $204.3 million in 2020 to $1.74 billion by 2028.[102]

Contributing to employment generation

As a fast-growing ecosystem at the intersection of financial services and technology, FinTechs create jobs and make specific skills, which were previously not in high demand, hyper-relevant. Most (77%) FinTechs in Nigeria employ between 1 and 150 staff, while the remainder employ more.[103] Developers, business analysts, compliance experts, data scientists, cybersecurity analysts and quantitative analysts, among others, are all finding careers in FinTech.[104] These roles are being taken up primarily by young people and with normalisation of the post-pandemic work-from-home culture, many are working for both local and international firms from the comfort of their homes. With the number of FinTechs in Nigeria hovering at around 250,[105] there are thousands of direct employees in the sub-sector. Over and above these employees are all those that provide financial services indirectly, including over 300,000 identified agents in 2020[106] and thousands of non-identified

[100] See footnote 30 above

[101] Ventures Africa, '10 Platforms in Nigeria that lets you buy and pay for things in instalments', (25 August 2022), available at: https://venturesafrica.com/10-credit-solutions-platforms-that-lets-you-buy-and-pay-for-things-in-instalments/

[102] Research and Markets, 'Nigeria Buy Now Pay Later Markets Report 2021', (25 August 2022), available at: https://www.prnewswire.com/news-releases/nigeria-buy-now-pay-later-markets-report-2021-bnpl-payments-are-expected-to-grow-by-67-4-to-reach-341-9-million-in-2021---forecast-to-2028--301406720.html

[103] EY and FintechNGR, 'Nigeria Fintech Census 2020: Profiling and Defining the Fintech Sector', (25 August 2022), available at: https://assets.ey.com/content/dam/ey-sites/ey-com/en_ng/ey-fintech-nigeria-census-final.pdf

[104] Getsmarter, 'Fintech technology (fintech) career path', (25 August 2022), available at: https://www.getsmarter.com/blog/career-advice/career-path-financial-technology/

[105] See footnote 91 above

[106] See footnote 12 above

agents across the country.

It is also important to note that information and technology skills are in high demand. Jobberman[107] reported that 14% of available jobs between January and July 2021 were in the IT and telecommunications (Figure 33).[108]

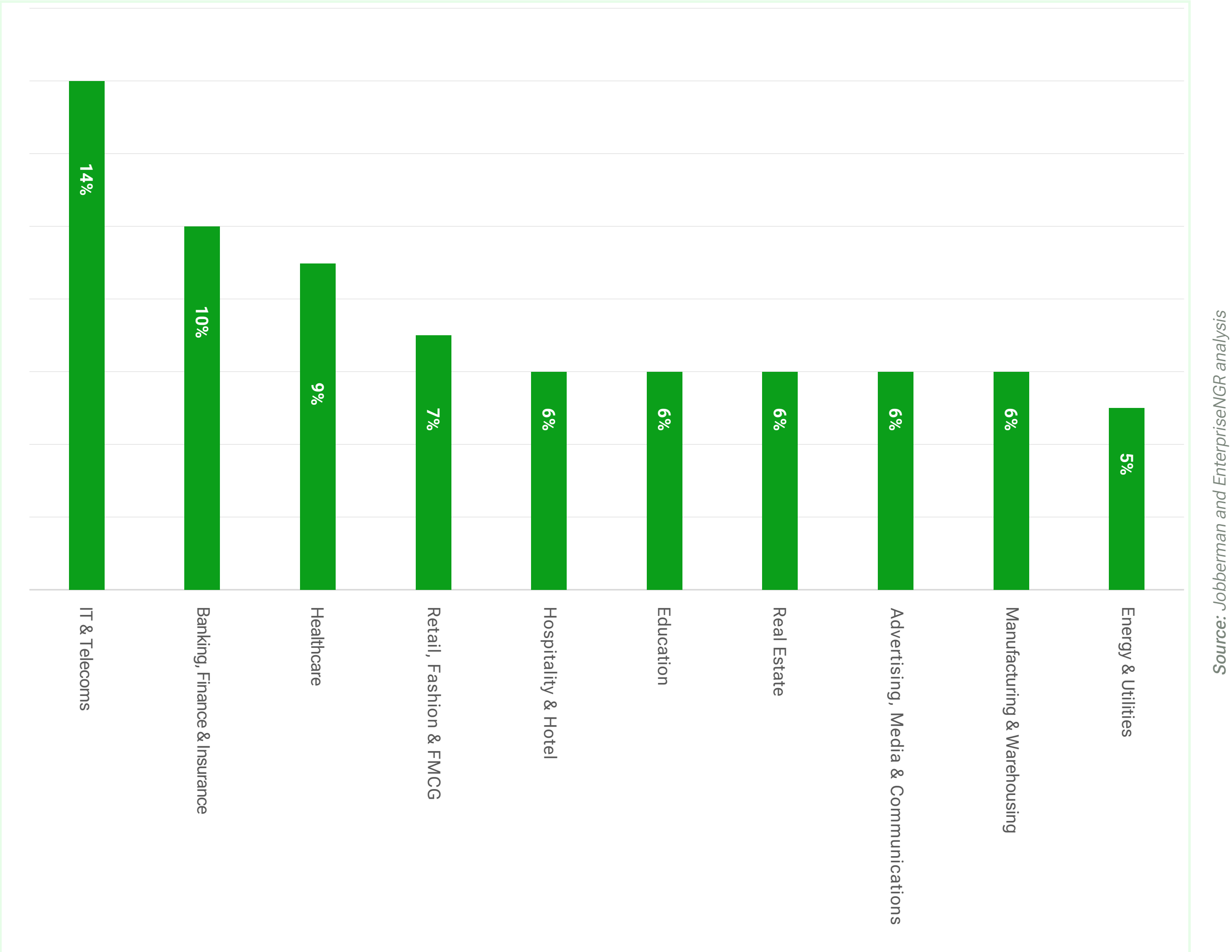


Figure 33: Top 10 industries with the highest number of job listings, January-July 2021

[107] One of the leading online jobs platforms headquartered in Nigeria.

[108] Jobberman, 'The Jobberman Nigeria Jobs Bulletin, Vol. 1', (August 2022), available at: https://www.jobberman.com/research

7.3 Conclusion

The FinTech sub-sector in Nigeria faces many challenges. Despite these, some FinTech companies are making inroads to remain resilient, but many are not so fortunate. Regulators are responding to the limitless aspirations of FinTech start-ups by introducing frameworks, sandboxes and guidelines, while undertaking stakeholder engagement to define new industry regulation. As stakeholders look to a more sustainable business environment, the result of favourable regulatory responses, other critical challenges that should be addressed include:

- **Weak interoperability and lack of common data source:** The FinTech sub-sector leverages interoperability to serve an extensive market. In Nigeria, this remains a challenge as operators (start-ups and incumbent organisations) are unwilling to collaborate, share application programming interfaces (APIs), databases, etc. to drive product delivery. More awareness of the benefits associated with interoperability can be helpful. Beyond this, regulators can incentivise and nudge operators to be more willing to collaborate. The country needs a national databank that synchronises information for every individual.
- **Shortage of talent:** Innovation could move faster in Nigeria but is limited by the pace at which talent is created because of challenges in the business environment, including limited access to tech training and development programmes. This is in addition to the difficulty of retaining tech talent in the country because of high global demand. Operators and regulators must respond to these challenges with adequate measures (e.g. democratisation of tech training by the government and associations) if Nigeria's FinTech space is to continue to stay ahead of the curve.
- **Slow pace of regulation:** While regulators in the Financial Services sector have begun to respond to the need to provide adequate regulatory structures to encourage innovation in the sector, the pace is still relatively slow. There is need to push for more sandboxes and regulatory support for cutting edge areas like blockchain technology (including cryptocurrency, metaverse, non-fungible tokens etc) and open finance. Also, there is a need for more stakeholder engagement to lead policy formulation conversations.
- **Inadequate patient capital:** It is certain few FinTech businesses will yield returns in one to three years; in fact, return on investment is only significant in the medium to long term. Unfortunately, the Financial Services sector, in

general, is short-term profit driven. As in the case of Banking, operators and investors in the FinTech sub-sector need to implement a growth strategy to balance short-term profits and long-term sustainability.

- **Data privacy and security challenges:** Most start-ups do not have the investment to host data locally and hosting data on a third-party platform or with an international data centre does not assure data privacy. Therefore, investment in data infrastructure by the government and local partners is required.
- **Poor understanding of user experience:** Not all FinTech companies do research to understand user needs and how to meet them. This shortcoming manifests in high churn rates. Companies need to close this gap through sufficient research work. They also need to engage a combination of marketing strategies, such as the use of gatekeepers, to promote user engagement.
- **Weak political and regulatory support:** Strong political will is needed for innovation to thrive in Nigeria. This will ensure synergy and alignment among high-level stakeholders to support new ideas.
- **Shortage of funding:** Not many FinTech companies are getting funding and established FinTech companies get funding faster than start-ups. There is more funding from international investors and significant effort is required to intensify investments by local investors.

Weak interoperability and lack of common data source

Shortage of talent

Slow pace of regulation

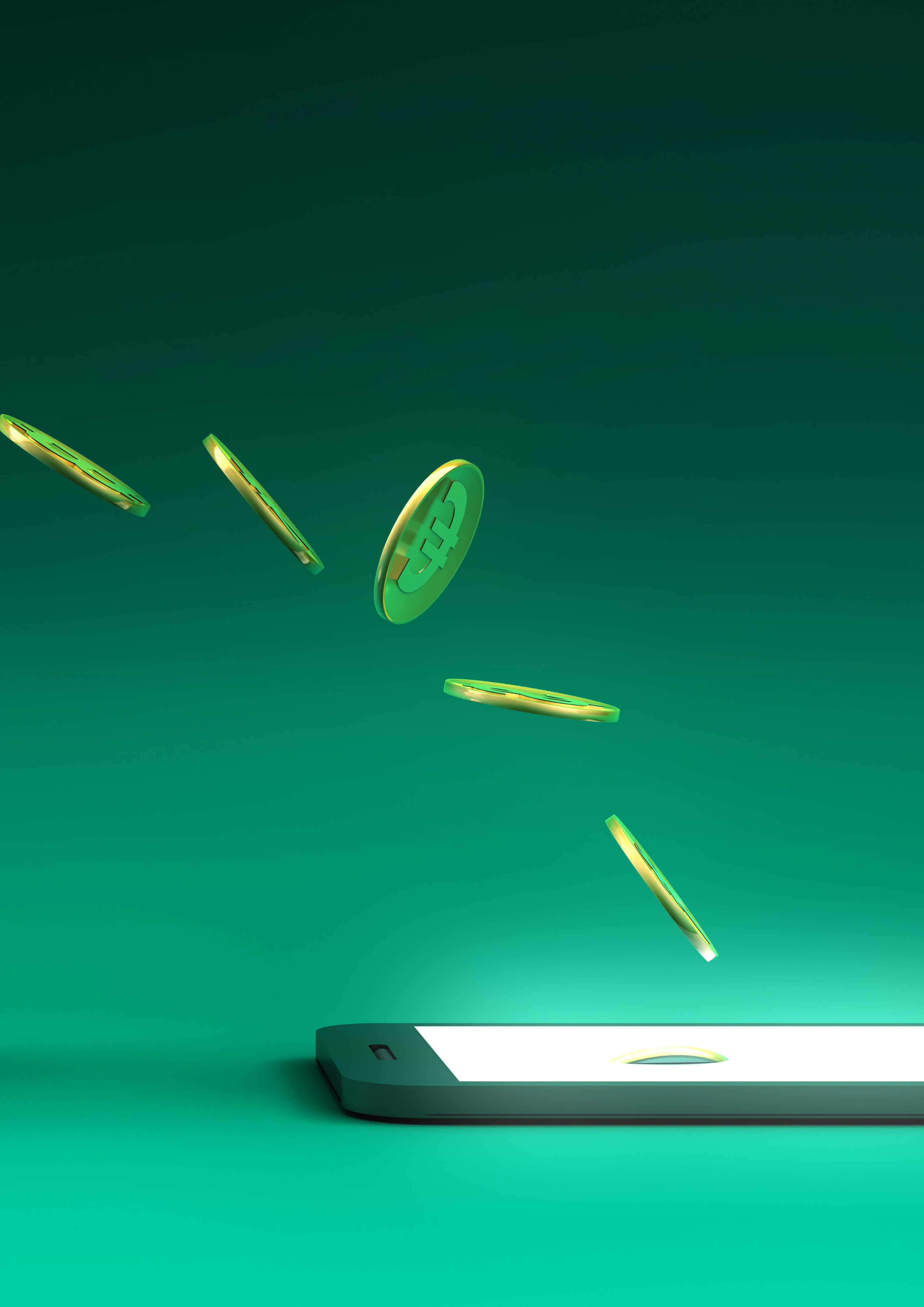
Inadequate patient capital

Data privacy and security challenges

Poor understanding of user experience

Weak political and regulatory support

Shortage of funding



Supporting businesses

Contribution to the economy

Conclusion

8.0

Professional Services

KEY FACTS

141,917

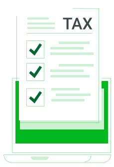
Registered lawyers and Accountants with NBA and ICAN respectively.

₦2.346 trillion

PSTS Nominal Share of GDP

3.2 %

contribution to GDP



₦9.3 billion

Company income tax contributed by PSTS

₦13.1 billion

value-added tax receipt

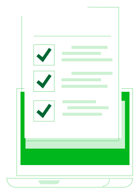
4.16 million

employed Nigerians in the PSTS sector

The Professional Services sub-sector is a powerhouse that energises the entire economy through the provision of expert knowledge and outsourced services across multiple sectors. It comprises Accounting, Management Consulting, and Legal Services firms. Accounting and Management Consulting firms are the bedrock of properly functioning businesses and economies as they create relevant knowledge bases and help maintain the standards required to achieve success. These professionals spend time studying, analysing and creating best-in-class solutions to unique business and economic problems. They enhance corporate governance, reporting and trust, which are critical elements of adequate stewardship and business growth. They support governments and entrepreneurs in conceptualising innovative ideas, carrying out feasibility studies and developing business plans/ strategies while assisting in plan execution, capital raising and monitoring progress.

Key areas highlighted by the ACCA that the sub-sector contributes to development

Capacity Building



Global Standards

Sustainability

Integrated Reporting

Standards for Business

The Association of Chartered Certified Accountants, England and Wales (ACCA)[109] highlighted key areas the profession contributes to development, including:

- **Capacity building:** the sub-sector actively assists in developing the capacity required to foster growth. This includes both intellectual capacity as well as organisational capacity.
- **Global standards:** the creation of global standards by the sub-sector has led to transparency and easier cross-border comparisons that improve business operations. These, among other factors, aid the process of attracting investment and expertise from all over the world.
- **Sustainability**: the sub-sector is at the forefront of sustainability initiatives and has standards in place to monitor compliance with sustainable finance objectives.
- **Integrated reporting:** integrated reporting frameworks enable stakeholders not only to assess the financial health of businesses, but to gain deeper insights into operational health, resilience, governance and sustainability issues.
- **Standards for business:** in addition to setting global standards, the sub-sector also sets standards for individual businesses and economic sectors.

While accounting and management consulting are essential to economic development, so too is the Legal Services segment. Lawyers help in structuring businesses and transactions; putting in place and/or interpreting relevant agreements, contracts, laws, regulations etc; dispute resolution; supporting innovation via intellectual property protection; facilitating investment and fund flows; and advising on a broad range of business and economic issues. Legal services contribute significantly to the development of intellectual capacity.

The segment contributes to tax receipts directly as well as indirectly by supporting other businesses and embarking on entrepreneurial initiatives. The segment also contributes immensely to the quality of human capital in the country by training staff to global standards and providing a pool of experienced talent to other organisations across the economy.

The Accounting and Management Consulting segment is a vibrant one, with strong local operators and the Big Four global networks (PwC, KPMG, EY and Deloitte). Legal Services is largely dominated by local players with capacity that is comparable to that found in leading law firms in developed countries. Nigerian law firms have facilitated large-scale transactions in the country and internationally and remain leaders on the continent.

[109] Association of Chartered Certified Accountants, 'The role of accountancy in economy development', (16 August 2022), available at: https://www.accaglobal.com/content/dam/acca/global/PDF-technical/global-economy/pol-tp-raed.pdf

8.1 Supporting businesses

The Professional Services sub-sector provides a wide range of services, including management consulting and advisory, accounting, auditing and legal services, for organisations of different sizes and at different stages in their enterprise journeys. Besides the Big Four accounting firms,[110] there are a growing number of firms making increasingly important contributions to the economy's wellbeing by meeting the support services needs of businesses across all sectors of the economy.

The size of the sub-sector is not easy to determine, but the membership of various Pensions bodies is a useful proxy. To illustrate, the Institute of Chartered Accountants of Nigeria (ICAN) had 21,917 registered members as at June 2022,[111] while the Nigerian Bar Association has over 120,000 registered legal practitioners in 125 branches across the country.[112]

As of 2020, the Securities and Exchange Commission listed 166 Reporting Accountants/Auditors and 376 Solicitors as registered operators providing support services in the capital markets.[113]

In addition to the valuable commercial services offered by professional services firms to large organisations and government, these firms also support various social impact initiatives, including assisting small enterprises and start-ups as well as helping businesses in challenging timesto survive. By way of example, PwC Nigeria has an SMEs Desk, a platform that specifically helps small businesses build capabilities in important areas. KPMG Nigeria is also helping small businesses navigate business challenges.

8.2 Contribution to the economy

Contributing to national output

The National Bureau of Statistics (NBS) categorises Professional Services under the Professional, Scientific and Technical Services (PSTS) sector.[114] While the PSTS sector's 2021 GDP share (₦2.346 trillion) was similar to that of 2020 (₦2.345

[110] These are PwC, Deloitte, KPMG and EY

[111] Institute of Chartered Accountant of Nigeria, 'FM List as at June 15, 2022', (28 June 2022), available at: https://icanig.org/members/documents/FMLIST_150622.pdf

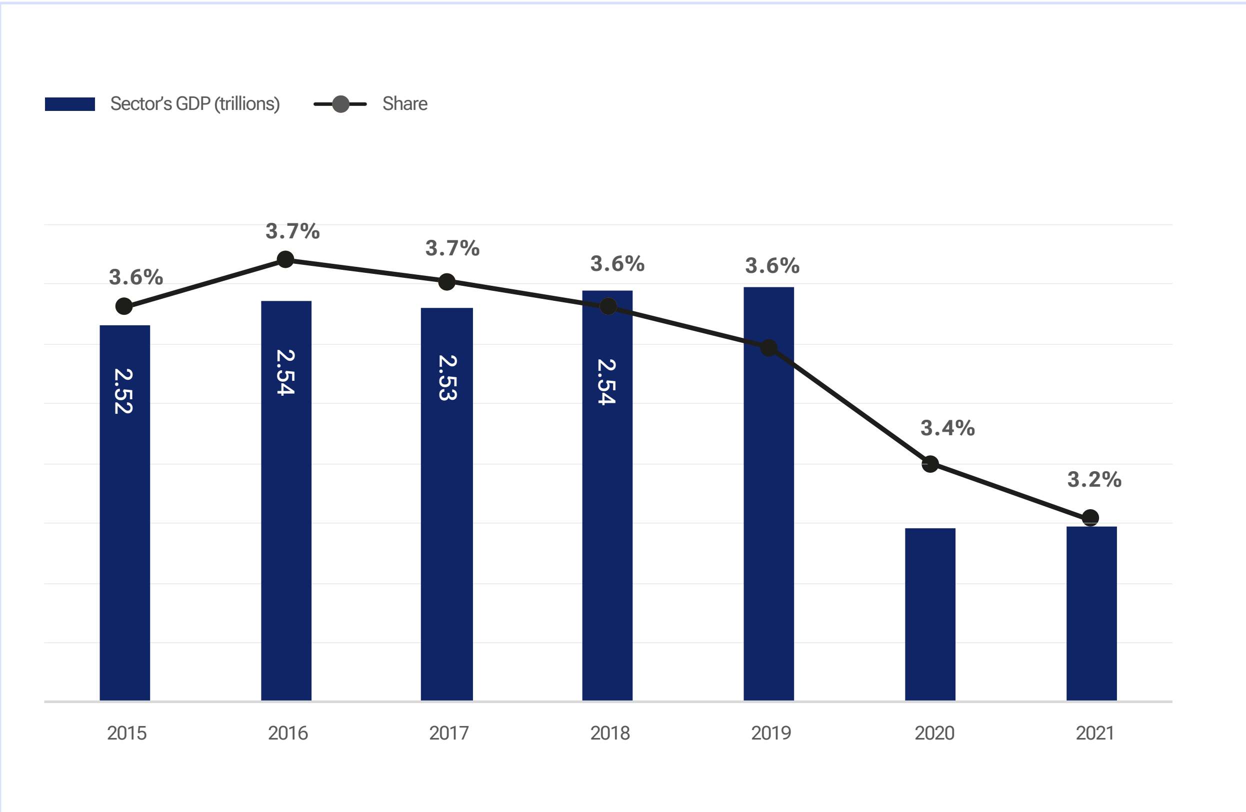
[112] Nigerian Bar Association, 'Who We are', (25 August 2022), available at: https://nigerianbar.org.ng/about-us#:~:text=The%20NBA%20is%20Nigeria's%20foremost,Federal%20Capital%20Territory%20of%20Nigeria

[113] See footnote 45 above

[114] Professional Services includes Accounting, Consulting, and legal Services.

trillion), its contribution to GDP dipped from 3.4% in 2020 to 3.2% in 2021(Figure 34).[115]

Although the NBS does not provide statistics for Professional Services on its own, the 2021 PSTS figure confirms EnterpriseNGR's estimate of FPS' combined annual GDP contribution of between 3.6% and 6.8%.[116]



Source: National Bureau of Statistics and EnterpriseNGR analysis

Figure 34: The Professional, Scientific and Technical Services sector's contribution to GDP, 2015-2021

[115] Computed using the National Bureau of Statistics Gross Domestic Product data (Gross Domestic Product at 2010 constant prices); see footnote 43 above.

[116] This has taken into account the Financial Services sector's contribution to GDP in 2021 at 3.6%.

Contributing to tax revenue

In the last two quarters of 2021,[117] PSTS contributed ₦9.3 billion in company

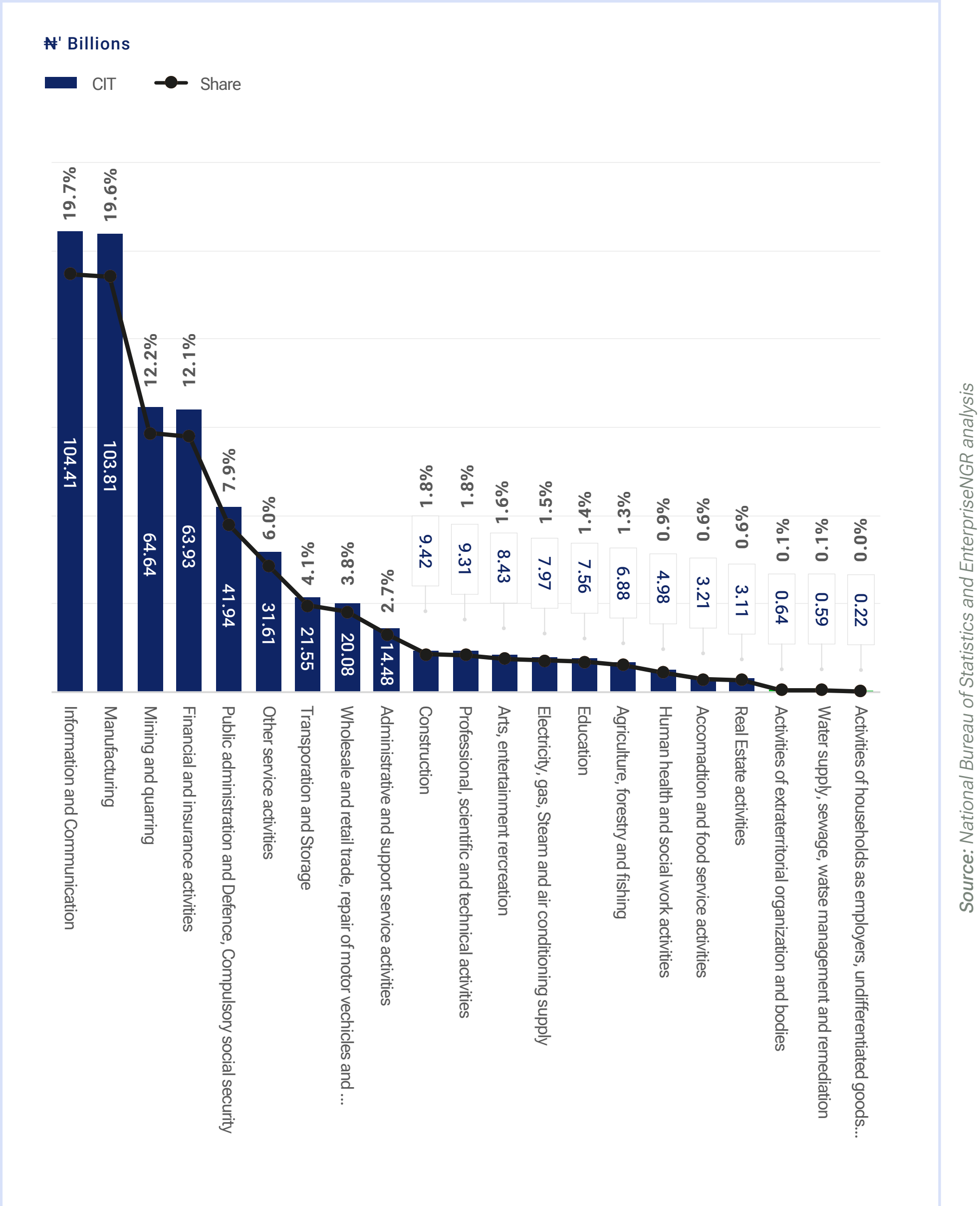


Figure 35: The Professional, Scientific and Technical Services sector's contribution to company income tax (CIT), Q3-Q4 2021

[117] Tax receipts from Telecommunication and Professional Services were disaggregated only as from Q3 2021.

income tax. The sector's contribution to total tax receipts was approximately 2% and ranked among the top 12 sectors/activities out of 21 in the classification (Figure 35).[118] This affirms the sector's potential to support growth in the rank of other sectors of the economy.

The sector's contribution to value-added tax is similar to its contribution to company income tax. Value-added tax of ₦13.1 billion was contributed by the sector in Q3 and Q4 of 2021, placing it 9th among 21 sectors/activities in the classification (Figure 36).[119]

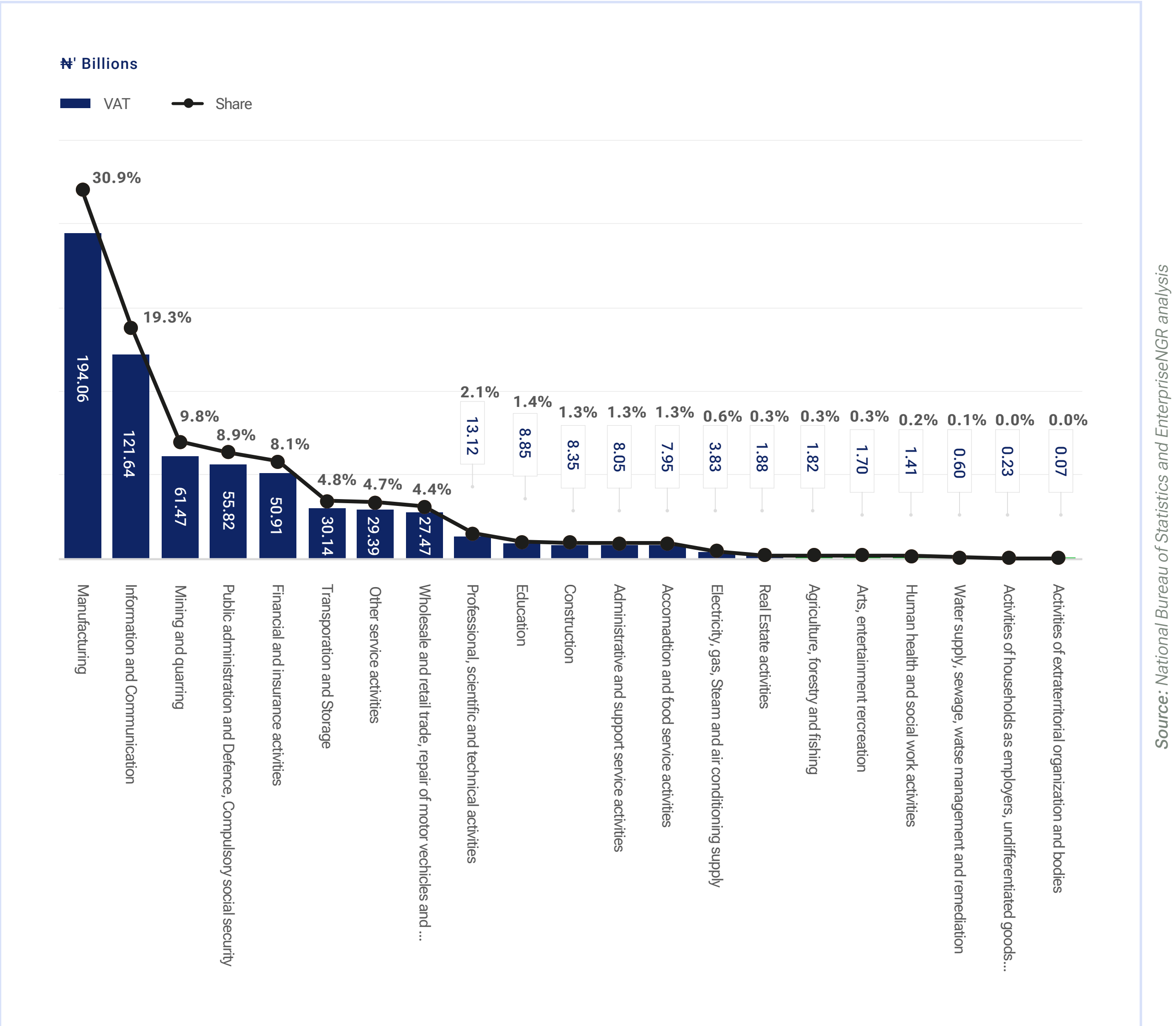


Figure 36: The Professional, Scientific and Technical Services sector's contribution to value added tax (VAT), Q3-Q4 2021

[118] National Bureau of Statistics, 'Company Income Tax Q4 2021', (09 August 2022), available at: https://nigerianstat.gov.ng/elibrary/read/1241141

[119] See footnote 9 above

Contributing to employment generation

The NBS reports that there were 4.16 million Nigerians employed in the PSTS sector in 2017,[120] which includes those in Management Consulting, Accounting and Legal Services. While it is not possible to make definitive numbers available, this is further evidence that the Professional Services sub-sector provides direct and indirect employment to millions of Nigerians.

[120] See footnote 5 above

8.3 Conclusion

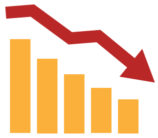
Beyond its current achievements, the potential of the Professional Services sub-sector in Nigeria is enormous. The sub-sector can help accelerate employment and job creation, contribute to government revenue and advance Nigeria's brand in global markets, among many other possibilities. However, like the other FPS sub-sectors , Professional Services is not without distinctive challenges, which if resolved can allow it to deliver on its potential. Below are a few for consideration:

- **Low adoption of technology:** While large-scale firms have leveraged innovation in technology to deliver competitive services, most on the lower rungs of ladder still rely on comparatively less productive methods to serve customers. This limits growth and the quality of service, and fails to meet clients' evolving demands. Accounting and law firms in particular, might need to speed up technology adoption to keep up with the global pace in the use of technology for efficient service delivery.

- **Lack of coordination:** The three segments within the Professional Services sub-sector are coordinated under different national bodies/associations. While these may be relevant to meet industry-specific requirements, the sub-sector also needs strong oversight/coordination by a single representative body for the purpose of defining a clear roadmap for holistic cross-industry strategies and initiatives. This single arrangement will ensure that activities across the sub-sector are synchronised, and sectoral data are adequately reported for decision-making.

- **Shortage of talent:** Accounting and Management Consulting workers are among the most sought-after in the international market. Nigeria's Professional Services sub-sector, particularly Consulting is facing a growing shortage of knowledge experts due to global competitive demand and desire for greener pastures, which is leading to mass emigration of talent. Some employees are poorly remunerated, particularly young lawyers. At this stage, employers and regulators will need to provide incentives to retain experts and devise approaches to speedily groom and encourage new talent in Professional Services. Coaching and mentoring should be part of the interventions to develop new talent.

- **Lack of national support:** The sub-sector is dominated by small-scale operators that require incentives to scale. Given the sub-sector's enormous potential for job creation and the potential to support lives and livelihoods, priority should be given to growth infrastructure skills development, finance and access to the market. In addition, local content policies that encourage the participation of local operators in big-ticket transactions should be considered.
- **Low value placed on professional services:** Businesses and individuals in the country have not fully embraced the use of professional services providers due to the low value placed on their knowledge and expertise. The effect of this includes poor compensation for services, poor employee remuneration and lack of adherence to contracts of service. Industry representative bodies and regulatory authorities should drive broad-based awareness campaigns and also work closely with regulatory bodies in other sectors to mandate, as a regulatory requirement, the use of professionals, consultants, auditors, accountants, and lawyers in critical areas of business and operations.
- **Corrupt practices and influx of unprofessional service providers:** There are many services providers that don't meet the regulatory requirements to practice. Among registered professionals, unethical and unprofessional practices exist. Regulatory bodies for Consulting, Accounting and Legal Services should step up their efforts on the enforcement of regulations and the imposition of adequate sanctions.

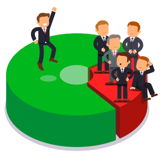


Low adoption of technology

Lack of coordination

Shortage of talent

Lack of national support



Low value placed on professional services

Corrupt practices and influx of unprofessional service providers

9.0

Sustainable Finance

KEY FACTS

Africa's

1st

Sovereign green bond

₦55.52 billion

size of Nigeria's green bond market

The Securities and Exchange Commission of Nigeria (SEC) in October 2018, launched the Green Bonds Issuance Rules.

In April 2021, the SEC issued Guidelines on Sustainable Financial Principles for the Nigerian Capital Market.

NGX Nigerian Exchange Group

The Nigeria Exchange Group (NGX or The Exchange) unveiled its Sustainability Disclosure Guidelines for all listed entities in March 2019.

FMDQ OTC Securities Exchange

The FMDQ Green Exchange was launched in November, 2021

THE WORLD BANK IBRD • IDA

World Bank Assisted - Federal Government of Nigeria Solar Homes Systems programme:

$765 million

World Bank assisted Nigeria Electrification Project

Over 5 million

solar homes project ongoing

Sustainable finance is a relatively new, but significant area of finance. In light of increasing adverse changes in the global climate as well as the many socio-economic challenges faced by mankind, sustainable finance seeks to achieve economic prosperity without imperilling environmental, social and governance objectives. Sustainable finance is the broad term that captures all financing activities that contribute to the attainment of the United Nations Sustainable Development Goals, and includes green finance and climate finance.

According to the EU high-level Expert Group on Sustainable Finance;

> ***Sustainable finance is about two imperatives. The first is to improve the contribution of finance to sustainable and inclusive growth, in particular funding society's long-term needs for innovation and infrastructure, and accelerating the shift to a low-carbon and resource-efficient economy. The second is to strengthen financial stability and asset pricing, notably by improving the assessment and management of long-term material risks and intangible drivers of value creation – including those related to Environmental, Social and Governance (ESG) factors.***[121]

The challenge is to mobilise the entire world to take joint action with respect to sustainable finance, as was re-emphasised at COP26. The Glasgow Climate Pact expects to drive action on mitigation (reducing emissions), adaptation (helping those already impacted by climate change), finance (enabling countries to deliver on their climate goals), and collaboration (working together to deliver greater action). Finance is pivotal as it will provide the funds needed to drive action towards a greener world.

The UN Conference on Trade and Development (UNCTAD) estimates[122] that sustainability-themed investment products in global capital markets amounted to $3.2 trillion in 2020, up more than 80% from 2019. These products include sustainable funds (over $1.7 trillion), green bonds (over $1 trillion), social bonds ($212 billion) and mixed-sustainability bonds ($218 billion). Most are domiciled in developed countries and targeted at assets in developed markets.

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[121] European Commission, 'Finance', (14 August 2022), available at: https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en

[122] United Nations Conference on Trade and Development, 'World Investment Report 2021', (11 August 2022), available at: https://worldinvestmentreport.unctad.org/world-investment-report-2021/ch5-capital-markets-and-sustainable-finance/

$3.2 trillion

Value of sustainability-themed investment products in global capital markets in 2020

over $1.7 trillion

Sustainable funds

over $1 trillion

Green bonds

$212 billion

Social bonds

$218 billion

Mixed-sustainability bonds

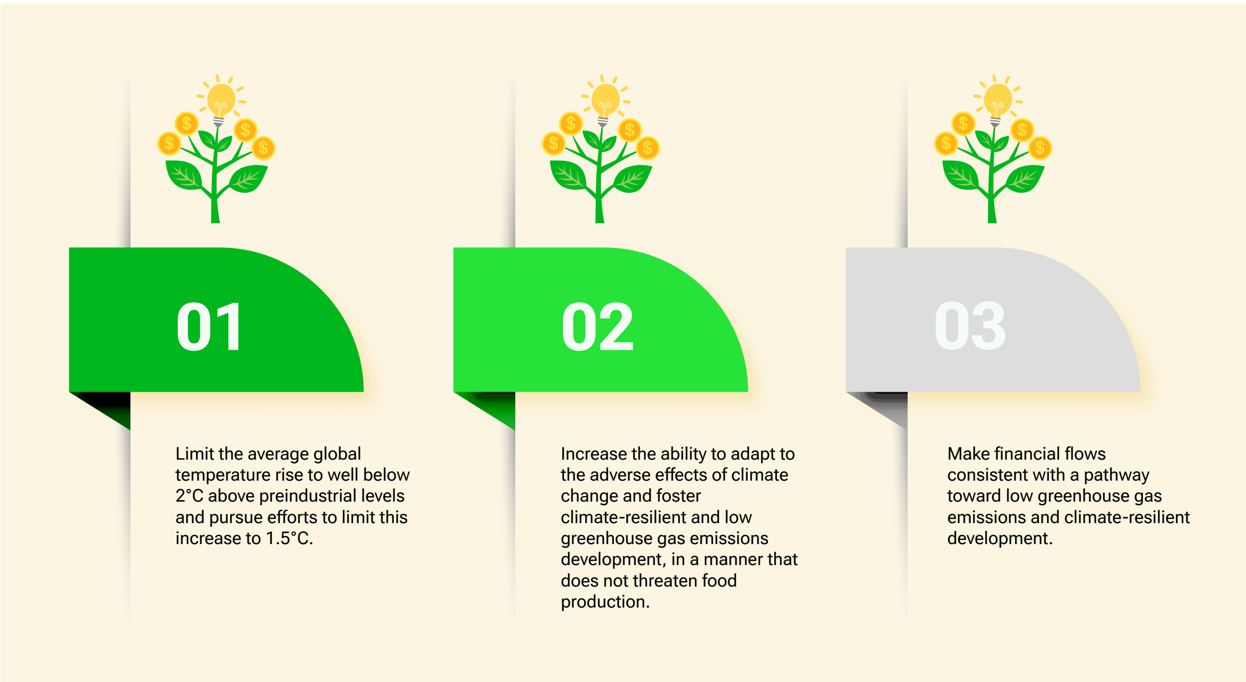
In Nigeria, the Sustainable Finance sub-sector is beginning to receive increased attention. The effects of climate change are taking a toll on the country and can be seen in increases in temperature; variable rainfall; rise in sea level and flooding; drought and desertification as well as increasing food insecurity. These effects have both environmental and socio-economic impacts. For example, drought and desertification in the Sahel region is driving pastoral communities to seek greener pastures (food and water) for their cattle away from their traditional routes. This is intensifying patterns of conflict with farmers in the region. In addition to climate change, rising income inequality and other economic challenges add to the urgency to design and implement concerted programmes for a more sustainable growth path.

The United Nations Environment Programme (UNEP) in collaboration with FMDQ (Nigeria's foremost debt capital, foreign exchange and derivatives over-the-counter securities exchange) launched the Nigerian Sustainable Finance Roadmap in December 2018.[123] This provides a framework for Nigeria to deepen its sustainable finance system.

9.1 Contributing to national investments and development

Accelerating green finance

Alongside 195 other parties, Nigeria, endorsed the Paris Agreement in December 2015. Hinged on three major tenets, the agreement is a global strategy for managing mankind's adverse impact on the lived environment:[124]



[123] United Nations Environment Programme, 'Nigerian Sustainable Finance Roadmap', (14 August 2022), available at: https://www.sbfnetwork.org/wp-content/assets/policy-library/1590_Nigeria_Sustainable_Finance_Roadmap_2018.pdf

[124] Patricia Espinosa, 'The Paris Agreement, a Strategy for the Longer Term', (14 August 2022), available at: https://www.wri.org/climate/expert-perspective/paris-agreement-strategy-longer-term

Following Nigeria's endorsement of the Paris Agreement, reasonable progress has been made towards achieving the country's Nationally Determined Contributions (NDCs) in reducing greenhouse gas emissions and ending gas flaring by 2030. In line with this, Nigeria issued Africa's first sovereign green bond and first Climate Bonds Standard Certified bond, worth ₦10.69 billion in December 2017. A second issuance of ₦15 billion followed in June 2019. The bonds were listed on the Nigerian Stock Exchange (now the Nigerian Exchange Limited) and the FMDQ Securities Exchange where both bonds were oversubscribed. The tables below outline the use of funds of both issuances.[125]

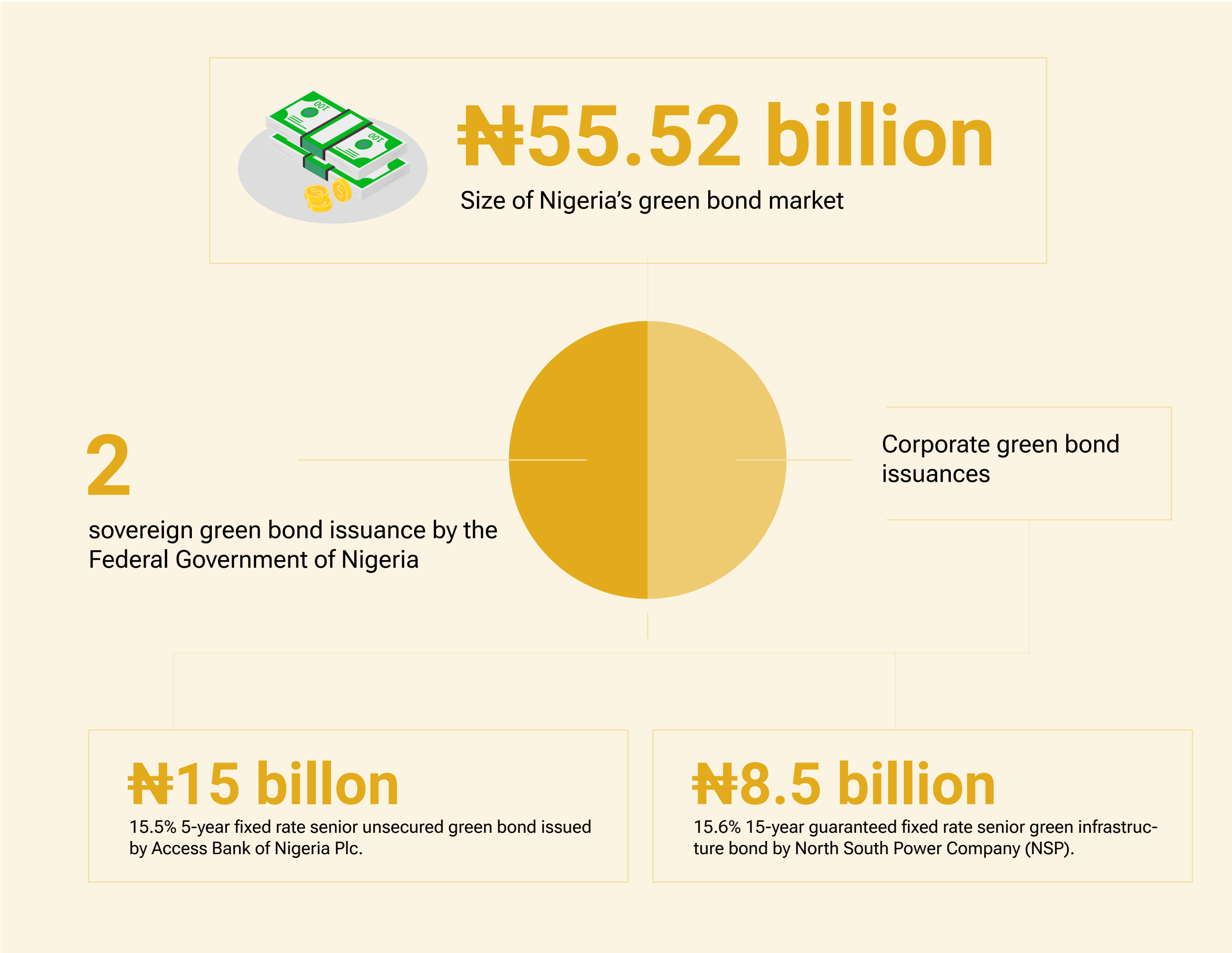
First Series*				
Project (Use of Green Bond Proceeds)	**Implementing Ministry / Agency**	**Project Objective**	**Climate Action Taxonomy**	**Cost (₦)**
Energizing Education	Power / Rural Electrification Agency	To develop off-grid Independent Power Plant type projects for the generation and provision of 24/7 power supply for 37 federal universities and 7 teaching university hospitals	Mitigation Energy: Solar	8,550,000,000
Afforestation Programme	Environment	To increase forest coverage through plantation of seedlings to cover 131,000 hectares of land	Mitigation Land Use: Forestry	1,990,000,000
Renewable Energy Micro-Utilities in 45 Communities	Power/Rural Electrification Agency	To provide energy access for 45 unserved rural communities across the country by employing mini-grids with distributed loads of 33-50KW per community	Mitigation Energy: Solar	150,000,000
		TOTAL		**10,690,000,000**
** The proceeds from the first green bond series were mostly allocated to three key project categories. All the selected projects were fully budgeted for in the 2017 national budget.*				

[125] Heinrich Boll Stiftung, 'Nigeria's Green Bond Programme: Aspirations, Realities and Solutions', (14 August 2022), available at: https://ng.boell.org/sites/default/files/2022-02/Nigeria%E2%80%99s%20Green%20Bond%20Programme2022Report.pdf

Second Series*			
Project (Use of Green Bond Proceeds)	**Implementing Ministry / Agency**	**Climate Action Taxonomy**	**Cost (₦)**
Energizing Education & RE Micro-Utilities	Power / Rural Electrification Agency	Mitigation Energy: Solar	7,777,000,000
Afforestation Programme	Environment	Mitigation Land Use: Forestry	1,220,877,357
10MW Katsina Wind Farm	Power	Mitigation Energy: Wind	487,000,000
Solar Powered Tricycles	Transport	Mitigation Transport: Electric Public Transport	500,000,000
Abuja Rail Mass Transit	Federal Capital Territory	Mitigation Transport: Public Mass Transit	1,597,122,872
National Irrigation Programme	Water Resources	Adaptation & Mitigation	405,000,000
Agroforestry	Agriculture	Mitigation Land Use: Agriculture	600,000,000
		TOTAL	**15,000,000,000**
** The proceeds from the second green bond series were allocated to seven projects and programmes in various sectors. All the selected projects were fully budgeted for in the 2019 national budget.*			

According to the Nigerian Exchange Group, Nigeria's green bond market was valued at ₦55.52 billion as at December 2021. This consists of the two sovereign green bond issuances by the Federal Government of Nigeria and a few corporate green bond issuances. The corporate green bonds are ₦15 billon 15.5% five-year fixed rate senior unsecured green bonds issued by Access Bank of Nigeria plc and the ₦8.5 billion 15.6% 15-year guaranteed fixed rate senior green infrastructure bond by North South Power Company (NSP).[126]

[126] Helen Oji, 'Nigeria's green bond market exceeds N55b as NGX targets more issuances', (14 August 2022), available at: https://guardian.ng/business-services/nigerias-green-bond-market-exceeds-n55b-as-ngx-targets-more-issuances/



Other developments in sustainable finance in Nigeria include:

- **SEC Sustainable Finance Regulations**

  The Securities and Exchange Commission of Nigeria (SEC) launched the Green Bonds Issuance Rules in October 2018. The SEC has collaborated with the Green Bonds Market Development Programme (GBMDP) on several initiatives aimed at developing Nigeria's green bond market.[127] The GBMDP is a programme supported by FMDQ, Financial Sector Deepening Africa

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[127] FMDQ Securities Exchange, 'State of the Market Report: The Nigerian Green Bond Market Development Programme', (14 August 2022), available at: https://www.climatebonds.net/files/reports/nigerian-green-bond-market-development-programme-state-of-the-market-final.pdf

and Climate Bond Initiative aimed at deepening the green bonds market by providing the requisite green bond knowledge base (training, resources, technical support) to regulators and other key stakeholders.

Other developments in the sustainable finance space in the country include:

SEC Sustainable Finance Regulations

NGX Sustainability Finance Initiatives

Launch of the FMDQ Green Exchange

Climate Finance Accelerator (CFA)

World Bank Assisted - Federal Government of Nigeria Solar Homes Systems programme

In April 2021, the SEC issued Guidelines on Sustainable Financial Principles for the Nigerian capital markets. These are guidelines developed to help address the impact of externalities and ensure long-term economic growth while safeguarding the environment and society. These externalities include air and water pollution, climate change, water and natural resource scarcity, environmental degradation, growing population density and poverty. The primary objective is to achieve a balance in the pursuit of economic prosperity while ensuring environmental protection and social development.[128]

- **NGX Sustainability Finance Initiatives**

  The Nigeria Exchange Group (NGX or the Exchange) unveiled its Sustainability Disclosure Guidelines for all listed entities in March 2019. The Guidelines articulate a step-by-step approach to integrating sustainability into business operations and activities, and details indicators that should be considered when providing annual disclosure to the Exchange. The Exchange encourages all Issuers to adopt the practice of sustainability reporting.

  Also in 2019, the Exchange concluded a memorandum of understanding with the Luxembourg Stock Exchange (LuxSE) to promote cross-listing and trading of green bonds in Nigeria and Luxembourg. The MoU established an agreement for the two exchanges to collaborate with a view to sharing best practices and organising joint initiatives in their respective markets.

  Via its X-Academy, the Exchange also actively supports capacity building in sustainable finance by offering training and workshops. It hosted training for issuers and market operators on the issuance of sustainable financial instruments in March 2022, in collaboration with the International Finance Corporation (IFC) — a member of the World Bank Group. The training, themed “Deep Dive in Green, Social and Sustainability Bonds Issuance”, was delivered by the Climate Bonds Initiative (CBI).

- **Launch of the FMDQ Green Exchange**

  The FMDQ Green Exchange was launched in November 2021. It is a dedicated platform that promotes the advancement of green and sustainable finance, and transparency in ESG-related data in Nigerian financial markets. It is established to be a one-stop repository for all green and sustainable debt securities listed on FMDQ Exchange.

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[128] Securities and Exchange Commission, ‘Guidelines on Sustainable Financial Principles for the Nigerian Capital Market’, (14 August 2022), available at: https://sec.gov.ng/wp-content/uploads/2021/12/SEC-Guidelines-on-Sustainable-Financial-Principles-for-the-Capital-Market_Final.pdf

- **Climate Finance Accelerator (CFA)**

  The CFA is an initiative supported by the UK Government and other donors with the aim of accelerating the achievement of NDCs by creating climate investment plans supported by a healthy pipeline of bankable projects that will attract private sector investors. The core objectives of the CFA are to:[129,130]

  - Develop a pipeline of projects needed to deliver Nigeria's NDC;
  - Enhance local capacity to access green finance in both public and private sectors; and
  - Embed the CFA approach within Nigerian plans for implementation and financing of its NDC.

- **World Bank-Assisted Federal Government of Nigeria Solar Homes Systems programme**[131]

  This is a Federal Government of Nigeria initiative designed to provide stand-alone solar home systems for households and micro, small and medium enterprises (MSMEs). It is part of the $765 million World Bank-assisted Nigeria Electrification Project. More than five million unserved and underserved Nigerian households and MSMEs will access better energy services at an affordable cost, via stand-alone solar systems. This in turn will significantly scale up the market for solar home systems (SHS) in Nigeria. The core objectives of the programme are:[132]

- Expand energy access to 25 million individuals (five million new connections) through the provision of solar home systems or connection to a mini grid;
- Increase local content in the off-grid solar value chain and facilitate the growth of the local manufacturing industry; and
- Incentivise the creation of 250,000 new jobs in the energy sector.

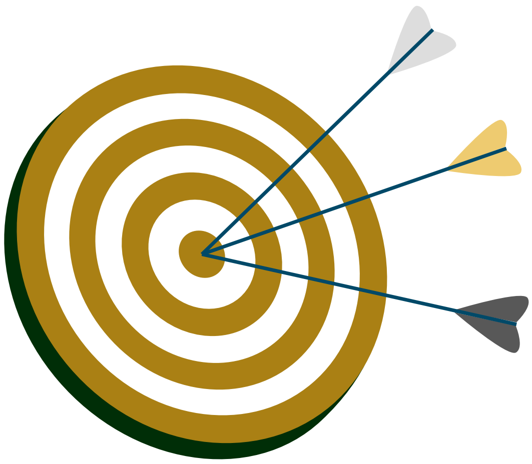
[129] Global Infrastructure Hub, Climate Finance Accelerator, (14 August 2022), available at: https://www.gihub.org/innovative-funding-and-financing/case-studies/climate-finance-accelerator-cfa/

[130] Climate Finance Accelerator, 'CFA Nigeria: Climate Finance Mapping Project', (14 August 2022), available at: https://climatefinancepathfinder.global/wp-content/uploads/2020/11/CFA-Nigeria-Mapping-Project-Report_Final_221019.pdf

[131] The World Bank, 'Nigeria Electrification Project', (14 August 2022), available at: https://projects.worldbank.org/en/projects-operations/project-detail/P161885?lang=en

[132] Rural Electrification Agency (Nigeria), 'Solar Power Naija — Enabling 5 Million New Connections', (14 August 2022), available at: https://nep.rea.gov.ng/federal-governments-5milion-solar-connections-program/

Core objectives of the Solar’s Home Systems project



Expand energy access to 25 million individuals (5 million new connections) through the provision of solar home systems (SHS) or connection to a mini grid;

Increase local content in the off-grid solar value chain and facilitate the growth of the local manufacturing industry

Incentivise the creation of 250,000 new jobs in the energy sector

9.2 Conclusion

The Sustainable Finance sub-sector in Nigeria is still at an embryonic stage. However, significant progress has been made and all stakeholders need to continue to address the key issues facing the sub-sector with a view to ensuring economic prosperity is achieved in a green, safe and more inclusive environment. Issues to address include:

- **Insufficient green project pipeline:** There is a dearth of commercially viable green projects in Nigeria. This is attributable to the usually higher cost of green technology components in projects. Because of the nascence of the sub-sector, most projects are in pilot phases and not yet bankable.
- **Oil & gas dependent economy:** Nigeria is a leading producer of petroleum products and the economy is heavily dependent on the sector. Since most economic sectors are inordinately linked to the Oil & Gas industry, the green option is still seen as a distant alternative.
- **Limited supply of sustainable finance:** The supply of sustainable finance is still very low and Nigeria is not yet attracting significant volumes of the global climate finance available. As mentioned earlier, the stock of ₦55.52 billion ($132 million)[133] green bonds in Nigeria is a minuscule percentage of the global stock of sustainable finance of $3.2 trillion.
- **Foreign exchange risk exposure:** The bulk of the global stock of available sustainable finance is in foreign currency (typically US dollars). The fact that most local projects in Nigeria earn revenues in naira, along with the volatility of the currency, means businesses that accept dollar-denominated facilities are significantly exposed to foreign exchange risk. Stakeholders mostly explore local currency denominated transactions or foreign exchange swap arrangements to help green projects hedge against their foreign exchange risks.
- **Lack of knowledge:** There is a massive knowledge gap with respect to sustainable finance options and the structuring of green finance projects. Understanding of the financial implications of sustainability is still lacking in many organisations.

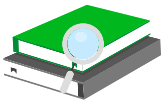
[133] At the exchange rate of ₦420.61 = $1

Insufficient green project pipeline

Oil & gas dependent economy

Limited supply of sustainable finance

Foreign exchange risk exposure



Lack ok knowledge

10.0

Conclusion

The potential of the Financial and Professional Services sector and the need for stakeholder support

Nigeria's Financial and Professional Services sector has survived challenging times in the past 40 years, particularly recent recessions and the global pandemic. Nevertheless, the sector continues to rebound and post record growth in numbers of firms, job opportunities, innovations and improved services, as information shared in this report demonstrates. This growth can in part be attributed to the adoption of new technologies by consumers and service providers, which has been supported by key stakeholders, including regulators.

With further support from ecosystem players — regulators, policymakers and operators — Nigeria's Financial and Professional Services sector can reach significant milestones in years to come. Nigeria has the potential to lead the continent as Africa's premier financial centre. Right now, evidence of this can be seen among FinTechs, where innovators and investors are riding the crest of successive technology waves to create a multibillion-dollar industry in Africa.

Taking the lead from strategies that have propelled other international financial services centres into becoming leading global financial hubs, notably Dubai International Financial Centre (DIFC) and Singapore, the ongoing commitment of Nigeria's Financial and Professional Services regulators has the potential to spur significant development and consolidate current achievements through growth-oriented regulation and policies. A flexible approach to policy and regulation that keeps practices in step with global standards, while also remaining locally relevant and appropriate, will place the sectors on a sustained growth trajectory.

Policy interventions that would contribute significantly to the growth of Nigeria's FPS sector include:

- Improving the inflow of capital by:
    - encouraging the competitiveness of the naira;
    - adopting a growth-driven inflation and interest rate regime;
    - providing access to quick and impartial dispute resolution courts; and
    - offering adequate insurance cover to protect investors against business risks.
- Encouraging innovation by:
    - fully implementing planned regulatory approaches, including sandboxes;
    - introducing Financial Services sector free-trade-zone schemes to

facilitate sector-classified investment policies;

- providing institutional support and frameworks for the regional and global competitiveness of firms by leveraging existing bilateral and multilateral agreements such as AfCFTA; and
- making local arrangements to stimulate the business operating environment, including lowering costs for the importation of technology.

- Improving consumer protection and rights by enforcing benchmarks on products and services through the imposition of adequate penalties and sanctions.
- Supporting entry-level skills acquisition by incentivising skills development programmes, training institutions and employers through tax cuts and incentives, including investment tax credits that allow tax deductions on investments in factors of production.
- Expanding opportunities for new and incumbent firms by supporting new growth areas such as green investment, Islamic finance, micro pensions, and micro-insurance.

The headwinds created by the Covid-19 pandemic have spurred new business models and operators are reinventing how they provide efficient and effective services. Initiatives that businesses could undertake to further competitive development of Nigeria's financial markets include, but are not limited to:

- Delivering value-for-money services and products that help consumers cater to their ever-evolving and expanding household and business needs.
- Adopting innovative approaches to solving business challenges. Organisations can move ahead of the curve by focusing on their unique opportunities to drive internal growth.
- Facilitating more finance/investments for the productive sector of the economy. This would spur multilayer, spillover effects into other sectors and contribute to sustainable long-term national growth.
- Investing in factors of production, particularly talent and technology, as these are key requirements for creating innovative products and services. This will require that operators be able to commit to investing significant patient capital in talent and technology for long-term benefits. Investment in

technology can no longer be regarded as optional as technology is essential to unlocking new possibilities.

- Building industry alliances, strong networks and partnerships to address common challenges and create mutually beneficial opportunities at a faster rate.

Appendix

Organisations Where Our Interview Respondents Work

Sub-sector	Respondents' Organisation
Banking	One Regulator, Banking
	Two Nigerian Tier 1 Banks
	Two Nigerian Tier 3 Banks
Insurance	Two Life Insurance Companies
	Three General Insurance Companies
Capital markets	One Securities Depository, Clearing and Settlement Company
	Two Securities Exchanges
Asset management	Two Medium-Large Investment Management Firms
	One Banking, Wealth Management and Brokerage Platform
	One Portfolio and Fund Management Firm
	Two Small-Medium Investment Banking and Financial Advisory Firms
	One Investment Advisory and Services Firm
	One Industry Association
Pension	Four Pension Fund Administrators
Non-interest finance	One Ethical and halal Financial Advisory Institution
	One Ethical and Shari'ah Compliant Fund Manager
	One Ethical Investment Management Company
Fintech	One Online Banking Platform
	One Multinational Financial Technology and Payment Card Company
	One Payment Technology Platform
	One Digital-only Bank
Professional services	Three Consulting Firms
	Two Accounting Firms
	Two Law Firms
	One Legal and Business Solutions Firm
	One State Judiciary
Sustainable finance	One Sustainable Finance Advisory Firm

*42 Organisations in total.

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