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FINANCIAL LITERACY IS A STRONGER DETERMINANT OF FINANCIAL INCLUSION

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What drives financial inclusion?

This is a question researchers have been interested in for a long time. With the growing global focus on achieving universal financial access, answering this question accurately has become more pertinent.

Across different countries and regions, different drivers of financial inclusion have been identified including income, education, age, gender, urban-rural classification and physical access, among others. These drivers also have varying degrees of impact on financial inclusion.

To verify how much impact two factors — income and financial literacy — have on financial inclusion, we dug deeper into the *Enhancing Financial Inclusion and Access (EFinA) data and discovered some relevant insights.

Our hypothesis was simple — having a source of income will positively affect a person's saving habits (whether using formal or informal services), while higher levels of **financial literacy will increase the frequency of demand for financial services. The effects of income and financial literacy on both formal, informal savings and other savings (at home or with family and friends) were thus investigated.

RESULTS

1. About a third of Nigerian adults do not save, while about the same number use *other saving* services (i.e. they save at home and with family and friends). The number of people who save digitally in mobile money wallets is negligible.
2. The relationship between income and frequency of saving informally is similar to that between income and formal savings suggesting that more people will be willing and able to save if their income increases.
3. Saving with *other services* (family/friends and at home) is common among low-income earners. About 80 percent of the people who frequently use *other* saving services, are low-income earners, earning a monthly income of less than 20, 000 Naira (USD50).
4. Also, regarding financial literacy scores, over 80 per cent of those that save at home and with family and friends (*other savings*) have a financial literacy score of 6 (out of a possible 10) or less. This evidence further suggests that income and financial literacy are inhibitors to formal financial access.
5. The results also show that while financial literacy significantly determines how often individuals save formally and informally, income only has a significant positive effect on informal savings.

6. The middle-aged to older women both in the urban and rural areas save more frequently than any other group, with informal financial institutions.

	Formal	Informal	Others
Income	Weak	Strong	Strong
Financial Literacy	Strong	Very Strong	Weak

Table 1: The Impact of Income and Financial Literacy on Formal, Informal and Other Savings

The Impact of Income and Financial Literacy on Formal Savings

Income

The findings show that the frequency with which adult Nigerians save in banks and other deposit-taking institutions does not depend on their income. This suggests that income alone does not drive formal savings as the frequency of formal savings does not change in response to income. Thus, we need to look elsewhere for (actual) triggers to encourage excluded adults to save formally for the first time and also for the included to increase their frequency of saving.

Financial literacy

The results show that financial literacy has a significant positive effect on the demand for formal savings products. The higher the financial literacy scores of the respondents, the more often respondents save in banks and other formal financial institutions. This suggests that with improvements in financial literacy, more adult Nigerians are likely to open savings account.

The Impact of Income and Financial Literacy on Informal Savings

Income

Unlike the insignificant relationship between income levels and formal savings, there is a significant positive relationship between income and the frequency of informal savings.

Financial literacy

The relationship between financial literacy and the frequency of informal savings is the same as that between financial literacy and formal savings i.e. it is a significant positive relationship. The results show that the more financially literate a person is, the more frequently he/she saves either in formal institutions (such as banks and other formal providers) or with informal saving groups and cooperative societies.

The Impact of Income and Financial Literacy on *Other* Forms of Informal Savings

Income

Income has a significant negative impact on the frequency of saving at home and with family and friends. The findings show poor households are more likely to save at home and with family and friends. However, as household income improves, the results suggest that household members will switch to informal saving with saving groups and cooperative societies.

Financial literacy

Unlike income, there is little or no evidence to show that financial literacy has any impact on how often an adult Nigerian saves at home and/or with family and friends. If earnings are not enough, it makes no difference how many financial services the individual is aware of.

CONCLUSION

This study investigates the extent to which income levels and financial literacy act as key drivers of financial inclusion. It explored the possibility that income and financial literacy of an individual (when controlled for age, gender and urban-rural classification) determines how often the individual uses financial services.

From the findings, we can deduce that programmes aimed at improving income and financial literacy of the financially excluded are more likely to result in informal financial inclusion. However, in situations where the individual is already informally included, the financial literacy component is bound to encourage them to move into the formal financial services ecosystem.

Income also plays an important role in financial inclusion.

Furthermore, combining financial literacy and awareness campaigns with poverty alleviation programmes is likely to improve access to financial services. Financial services providers can also target young adults and underserved rural women with savings products that include financial literacy training programmes.

**The study employed secondary data from the 2016 Access to Finance (A2F) survey of EFInA which surveyed over 22 000 respondents across the six geopolitical regions in Nigeria.*

***Respondent's financial literacy was computed using their responses to questions evaluating their knowledge of financial services/terms.*

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