Relevance of Financial Literacy in Financial Sector Development and Stability in Nigeria

Okere, Peter A. Phd[1], Mbanasor, Christian O. Phd[2] & Uzokwe, Nnamdi J. Phd[3]

[1, 2&3]*Banking and Finance Department, Imo State Polytechnic, Umuagwo-Ohaji, Nigeria*

Abstract: **This study was aimed at assessing the relevance of financial literacy in financial sector development and stability in Nigeria. The study theoretically evaluated the relevance of financial literacy in stability and development of financial sector in Nigeria with more reference to the deposit money banks. Financial literacy is a set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. From the literature, it was observed that financial literacy promotes financial system stability by increasing market demand, equitable use of financial services, improves savings culture and financial discipline, and stimulates economic activity. Financial literacy is essential for a viable financial system which in turn positively affects the economy as a whole. Lack of financial knowledge is the main driver that pulls people away from financial markets. The study therefore recommend that professional bodies like Chartered Institute of Banker of Nigeria (CIBN), Chartered Institute of Loan and Risk Management of Nigeria (CILRMN) etc should expedite more actions to incorporate financial literacy as part of professional training and organize capacity building for members and other target groups. Deposit Money Banks (DMBs) in collaborate with the CBN and other stakeholders in the implementation of financial literacy initiatives should continuously carry out in-house training programmes and capacity building for staff who will subsequently educate the customers on products/services being offered especially the terms and conditions, fees, charges and risks associated with such products.**

Keywords**: Deposit Money Bank, Financial Literacy, Financial Inclusion, Financial Sector Stability, Financial System.**

I.INTRODUCTION

"The Customer is the most important person in the economy and every business succeeds only when the customer is happy". This explains why the customer is regarded as King. There is no where this assertion is so true and more dominant than the financial service sector. The current realities in the financial sector show that, it is only when the interest of consumers is given proper attention and protected that public confidence would be restored in promoting a strong and stable economy. Financial service sector is fragile and dynamic, it changes as events around the world and country changes. It is the wheel through which economic activities rotates. Generally, activities of the financial service sector impact on the soundness and stability of the financial system, hence, special attention is accorded to them by the regulatory authorities. Financial literacy is essential for viable financial system which in turn positively impacts the whole economy. Though there exits many educated and literate Nigerians, a high percentage of the population does not have the requisite skills to effectively manage their financial transactions and take advantage of the opportunities presented by the financial products and services to improve their well-being (CBN, 2013)

Lusardi and Mitchell (2013) defined financial literacy as peoples' ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions which become increasingly important to enable individual and household to cope with the ever growing complexity of products and service in financial market Financial literacy is the ability to read, analyze, manage, and communicate about the personal financial conditions that affect material wellbeing. Financial literacy skills enable individuals and firms to pilot the financial world, make informed decisions about their money and minimize their chances of being misled on financial matters (Beal and Delpachitra, 2005).Consumers of financial services have also been subjected to unethical practices from financial institutions which could be attributed to their low levels of financial literacy arising from their lack of knowledge of their rights and obligations in their relationships with the financial institutions. Financial education is relevant to both educated and non-educated to enable them to be financially educated.

However, financial literacy can be differentiated from financial education. In a bid to improve financial literacy among American, the Advisory Council on Financial Literacy (PACFL), in 2008 succinctly clarifies and defines financial literacy and financial education as follows:

"*Financial literacy: the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. Financial education: the process by which people improve their understanding of financial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being"*

Recent technological and financial innovations in the Nigerian financial services sector such as debit card facilities, mobile money transactions, e- banking services and others have rendered money so liquid that it can easily flow from one point to another, and hence the greater need of education for financial management. The inability of the financial service sector to effectively and seamlessly educate their numerous customers has led to so many losses arising from misinformation (overload of information or shortage of information). Many customers have been duped by fraudsters who cashed in to this gap and mislead these uninformed customers. Sometimes these customers been deceived and defrauded are well educated but are not financially literate.

The National Financial Inclusion Strategy launched on the 23rd October, 2012 aims to reduce the financial exclusion rate in Nigeria from 46.3 per cent in 2010 to 20 per cent in 2020. A key component of the implementation process is customer empowerment achieved through improved financial literacy and consumer protection. Financial literacy surveys in many countries especially African countries indicate that consumers do not have adequate financial background or understanding and that they estimate their needs for financial education. Thus, the observation is that a major bane of economic development is lack of financial literacy and inability to maximize the growing financial markets, due to the ever increasing products and services which are continuously offered.(Faboyede, Ben-Caleb, Oyewo, and Faboyede 2014) Because of the importance of financial literacy in any economy, much attention from a wide range of stakeholders which include government agencies, monetary authorities, banking institutions, grass-roots consumer and community interest groups among other institutions has been given to it. These interested groups, including policy makers, are concerned about the lack of adequate knowledge of financial concepts by citizens as they do not possess the tools that are needed to make sound investment decisions which will enhance their economic well being.

The aim of these stakeholders and agencies is to equip customers and to make informed financial decisions in their businesses and transactions which in turn will increase their patronage and confidence in the banking sector in particular. However, it can be found that most customers have not performed optimally as some of these customers still wallow in ignorance in making sound financial decisions in their businesses and banking transactions. For lack of financial information and education, some individuals in Nigeria have been financially excluded. The financial exclusion which financial inclusion strategy aims at reducing to manageable minimum can never be achieved if financial literacy is not given special attention it deserved. It is only when the vast majority of the Nigerian population is financially literate that they can participate in the formal financial system, by becoming aware of and taking advantage of its opportunities, get financially included and thereby contribute to the financial and economic development of Nigeria.

The objective of this paper is to assess the relevance of financial literacy on financial sector development and stability in Nigeria. In order to achieve the objective, the study is divided into introduction, literature review and conclusion.

II. REVIEW OF RELATED LITERATURE

Literature on financial literacy and financial sector development is still scanty given that much interest on this concept has been developed with the evolution of modern and sophisticated financial instruments with different definitions. Financial literacy refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. The Organization for Economic Co-operation and Development (OECD) defined financial literacy as the process by which consumers/investors improve their understanding of financial products, concepts and risks, and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and take other effective actions to improve their financial well-being.

Financial literacy occupies a centre-stage in the quest to achieve financial inclusion, financial stability, economic growth and development. Inclusive growth in the economy can only be achieved where a larger proportion of the population participates in the financial markets. For this to happen, it is essential for the populace to know, understand and develop the ability to evaluate financial products and services as well as participate in the financial markets. The stability and development of the financial sector in Nigeria is dependent on the level of financial literacy amongst the population. The larger the financially included the better for the financial system and the economy at large.

Akims and Jagongo (2017) theoretically investigated the financial literacy and its impact on investment decisions in Nigeria and found out that financial literacy of individuals positively impacts on their investment decisions. Asenge, Anyebe and Nomhwange (2017) carried out a study to ascertain the effect of financial literacy on the performance of new ventures in developing economies with particular reference to Nigeria. The study reviewed different literatures on the subject matter and study established a significant relationship between financial literacy and business performance and concluded that financial literacy is considered as a catalyst that helps entrepreneurs to face stiff competition by constantly making informed decisions to produce quality products to meet customers' needs in the market.

Faboyede, Ben-Caleb, Oyewo, and Faboyede(2014) studied financial literacy education: key to poverty alleviation and national development in Nigeria. The study adopted a secondary data approach and finds that promoting financial literacy among Nigerians provides them with the essential knowledge and financial responsibility to make decisions that will better their lives and ultimately grow the economy. Matewos, Navkiranjit and Jasmindeep (2015) investigated the financial literacy for developing countries in Africa and review showed that level of financial literacy is low both in developed and developing countries, but policy and academic response in developing countries in general and Africa in particular is at low level.

AbdulRaham, Babangida and Alex (2018) analyzed the contribution of financial literacy to poverty alleviation in Nigeria, taking into consideration the financial literacy level of workers and the households in general. The findings show that a significant proportion of workers in Nigeria are not familiar with the available financial instrument, and were greatly engaged in reckless borrowing without knowing the consequences of such actions.; Result from the interview revealed that a great majority of workers only think of retirement provisions when they approach retirement age. In another study by Chepkemoi (2015) on the effects of financial literacy training on business profitability of Small and Medium Enterprises (SMEs) in Kenya showed that financial literacy training positively influenced the performance of SMEs and profitability. The study concluded that financial literacy affected profitability or SMEs.

III. FINANCIAL LITERACY AND NATIONAL DEVELOPMENT IN NIGERIA

In 2009, the Central Bank of Nigeria (CBN) embarked on a reform programme designed to reposition the Nigerian financial sector for greater impact on the country's growth and development. An important aspect of the programme is financial literacy. The financial literacy framework was reviewed in 2013 based on feedback from stakeholders in the course of its implementation and has now been renamed the National Financial Literacy Framework' (NFLF). The NFLF aims to promote financial literacy to drive the national financial inclusion policy that will ultimately promote economic growth.

The CBN is putting a lot of structures in place to ensure that consumers get maximum benefits from financial services providers, which will ultimately result in not only enabling people take charge of their financial well-being, but also enhance economic development. In the course of the implementation of the financial literacy framework, the CBN embarked on several customer education activities aimed at improving the financial literacy levels of customers of financial services. Notable among these were:

a) Financial Literacy Mass Awareness & Sensitization Campaigns

In order to reach members of the organised private and public sector as well as the general public and grassroots, the CBN covered 12 States across the 6 geo-political zones namely; Ogun, Rivers, Kano, Plateau, Gombe, Imo, Niger, Bauchi, Sokoto, Cross River, Oyo and Enugu, where it conducted a 2-day mass sensitization Workshop and Media awareness.

b) School Reach Out & Mentoring Programme

In collaboration with the members of the Bankers' Committee, the Central Bank of Nigeria with the sole aim of inculcating the right financial habits and skills in children that would make them take the right decision that will enhance their financial well-being, have facilitated at School Mentoring/Reach-out Programmes.

School Curriculum Development:

The Consumer Protection Department has continued to provide leadership in the development of a Financial Literacy Curriculum for Primary and Secondary Schools in Nigeria. This achievement is intended through intensive consumer enlightenment activities which will increase awareness and understanding of financial products and services, enhance efficient usage of financial resources, and empower Nigerians with the requisite knowledge to make informed choices and take effective actions that will enhance their financial well-being. By doing so, Nigerians will be empowered with the confidence to participate in the formal financial system. It is only when the vast majority of the Nigerian population is financially literate that they can come on board the formal financial systems, thereby contributing to financial stability (Onukwugha, 2013).

IV. FINANCIAL LITERACY AND FINANCIAL SECTOR DEVELOPMENT AND STABILITY IN NIGERIA

The financial sector has become more complex in recent years. People are moving from being unbanked to using third generation products such as E-banking platforms. The 2014 national baseline survey on Financial Literacy revealed that customers lacked a general knowledge of most banking products in the market place as 70 per cent of the adult population (98 Million) has no knowledge of mobile money product and more than 30 per cent do not know about current accounts.

Financial literacy is not only at the benefit of individuals, but also is at the best interest of financial service providers and soundness of the financial system. Financial sector stability is a prerequisite for sustained financial market growth and development in any economy. Financial literacy promotes financial system stability by increasing market demand, and responsible use of financial services. It also increases the level of savings, investments, and increases the take-up of financial product and stimulates economic activity. Further, it can help to reduce indebtedness levels and to take the poor out of poverty. The volume of currency outside the banking system is relative high in Nigeria and one of the causes of this, is financial illiteracy. The financial inclusion strategy of the government can only be significantly harnessed if the larger population is financially educated

Shankari, Navarathinam and Suganya (2014) also indicated that, financially educated consumers encourage genuine competition by compelling service providers to innovate and improve efficiency, which is not only in the best interest of consumers, but also contributes to the development of financial system and sustainability of an economy. The outcomes of improved financial literacy would also help financial sector regulators. In this regard, financial literacy improves financial system regulatory mechanism, because of the fact that seeking and processing financial information by the common people reduces information asymmetry between financial service providers and customers, which in turn, reduces market failure.

Mundy and Masok (2011) indicated that, financial literacy complements both prudential and financial consumer protection rules in banking sector while showing how financial literacy is linked to efficiency and effectiveness of financial system in developing countries. With respect to emerging and growing financial sector in most African countries; promoting financial literacy in the population should, and has been considered by policy makers in financial sector in order to ensure a well-functioning, inclusive and sustainable financial sector.

Financial literacy is important to the financial system development and stability in the following ways:

1. Financially capable customers make better decisions in managing and growing their assets and are less susceptible to unscrupulous financial services providers.
2. Improved financial capability can result in increased uptake of appropriate products, decreased product cancellations, debt stress and repayment failure, and ultimately reduce risk for financial institutions.
3. The behavior of financially capable customers could engender competition amongst financial service providers and this can translate to more efficient products and competitive prices for consumers as well as eliminate unscrupulous financial service providers.
4. Strong financial sectors and people capable of managing, protecting and growing their assets will ultimately support overall macro-economic stability and growth.

Financial literacy is essential for a viable financial system which would in turn have its effect on the economy as a whole. Lowly educated people usually find it difficult comparing financial products, making use of cash and non cash payments, understanding financial terms etc. High income earners mostly have a good level of financial literacy especially the educated ones while the uneducated ones are only aware of basic knowledge of financial products like savings and current accounts. Financial literacy has an impact on economic development and plays an essential role in creating a viable financial system. This means there is a link between financial literacy, financial system, institutions and economic development (ResearchClue.com website, 2013).

V. CONCLUSION AND RECOMMENDATIONS

This study was aimed at assessing the relevance of financial literacy in financial sector development and stability in Nigeria. Financial literacy enable individuals and firms to pilot the financial world, make informed decisions about their money and minimize their chances of being misled on financial matters (Beal &Delpachitra, 2005) Various studies such as Akims and Jagongo (2017), Asenge,Anyebe and Nomhwange (2017), AbdulRaham, Babangida and Alex (2018), (Onukwugha, (2013) and Mundy and Masok (2011) revealed that in order to make effective investment decisions, an investor needs to make the right choice among various alternatives at the right time. From the literature above, it can be observed that financial literacy increases knowledge and appreciation of the benefits of inclusive financial services, reduces the percentage of financially excluded persons, increases in the scope and scale of use of financial services and improves savings culture and financial discipline. Lack of financial knowledge is the main driver that pulls people away from financial markets (Lusardi and Mitchell, 2007)

Financial literacy promotes financial system stability by increasing market demand, and responsible use of financial services. It also increases the level of savings, investments, and increases the take-up of financial product and stimulates economic activity. Building financial literacy of citizens should, thus, need to be considered important element of poverty reduction, welfare improvement and financial sector building strategies in developing countries. Financial literacy is essential for a viable financial system which would in turn have its effect on the economy as a whole. Financial literacy has an impact on economic development and financial literacy plays an essential role in creating a viable financial system. The link between financial literacy, financial system, institutions and economic development has been established

Based on the findings above, this study recommends as follows:

1. Professional Bodies like Chartered Institute of Banker of Nigeria (CIBN), Chartered Institute of Loan and Risk Management of Nigeria (CILRMN) etc should expedite more action to incorporate financial literacy as part of professional training and organize capacity building for members and other target groups.
2. Deposit Money Banks (DMBs) in collaborate with the CBN and other stakeholders in the implementation of financial literacy initiatives should continuously carry out in-house training programmes and capacity building for staff who will subsequently educate the customers on products/services being offered especially terms and conditions, fees, charges and risks associated with such products.
3. Financial literacy education should be compulsory in schools as evidence shows that possession of educational qualifications greatly influenced financial literacy. Graduates need to be a lot more financially educated than even their parents were if they are to manage their personal finances successfully through life.
4. National wide campaigns, specific websites, free 24 hours information services and warning systems on high-risk issues for bank consumers (such as fraud) should be promoted.

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