

Towards a Cash-less Nigeria: Tools and Strategies

NCS 24th National Conference



CBN Presentation
July 2012





- **CBN Mandate**
- **Context – Shared Services Program**
- **Overview & Implications of Nigeria's Cash Economy**
- **Cash-Less Lagos**
- **Next Steps**

Central Bank of Nigeria and Its Mandate



- ❑ The mandate of the Central Bank of Nigeria (CBN) is derived from the 1958 Act of Parliament, as amended in [1991](#), [1993](#), [1997](#), [1998](#), [1999](#) and [2007](#).
- ❑ The CBN Act of 2007 of the Federal Republic of Nigeria charges the Bank with the overall control and administration of the monetary and financial sector policies of the Federal Government.
- ❑ The objects of the CBN are as follows:
 - ❑ ensure monetary and price stability;
 - ❑ issue legal tender currency in Nigeria;
 - ❑ maintain external reserves to safeguard the international value of the legal tender currency;
 - ❑ promote a sound financial system in Nigeria; and
 - ❑ act as Banker and provide economic and financial advice to the Federal Government

Central Bank of Nigeria and Its Mandate

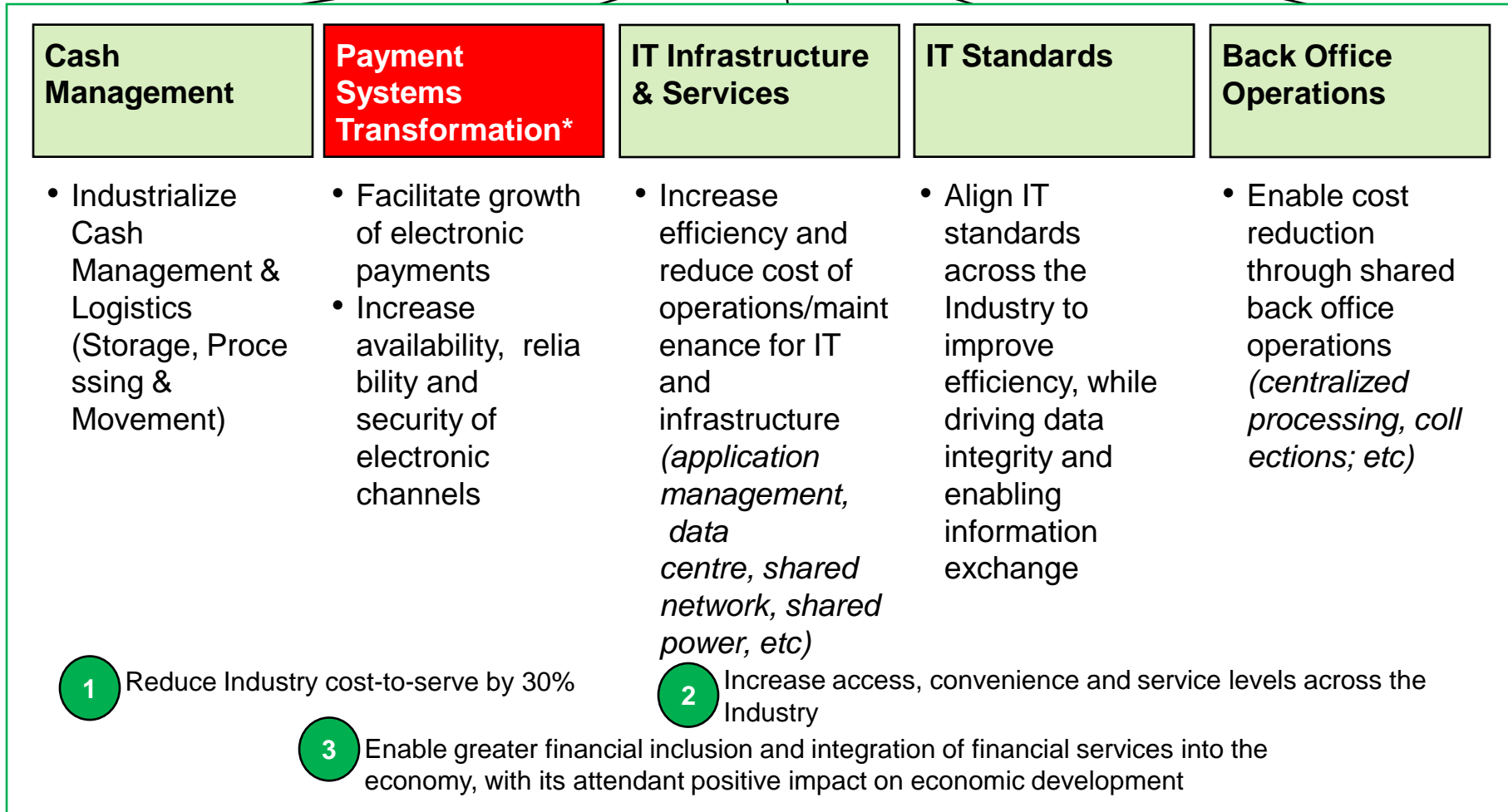


- ❑ Section 1 of the Money Laundering Act 2004 sets a threshold for cash payment for transactions outside the financial institution (₦500,000 for individuals and ₦2,000,000 for a corporate body) to ensure audit trail as a dis-incentive against money laundering
- ❑ The objective of the present policy on cash withdrawal is different as it is targeted at the reduction of cash transactions in the banking industry.

Overview: CBN, in conjunction with the Banker's committee embarked on a Shared Services program with three key objectives, including a drastic cost reduction of 30%



Shared Services Program



* Payments is the key driver of cost of distribution, which accounts for almost 60% of the industry cost base



Payment System Transformation and Cash Management

Payment System Transformation

Payment is the key driver of cost distribution in the industry and accounts for almost 60% of the industry cost base

- The cash policy
- NIBSS transformation.
- Working with banks to ensure more efficiency in the payment system.

Cash Management

Cash management constitutes almost 80% of bank infrastructure and staff. Therefore driving up the cost of banking service.

- Licensed CIT companies
- Drive e-payment deployment and usage to reduce the amount of cash in circulation.

- **Increasing availability and reliability of alternative payment channels**; as well as ensuring **effective settlement cycles**
- Ensuring appropriate options to **enable addition of 'new entrants' into the banking system** (e.g. KYC requirements)
- **Educating and creating awareness** amongst consumers, merchants, other stakeholders
- Instituting a **framework to ensure monitoring and compliance** of policy; **mitigate risks**; as well as **assess the impact** on economy and industry cost-to-serve

reason

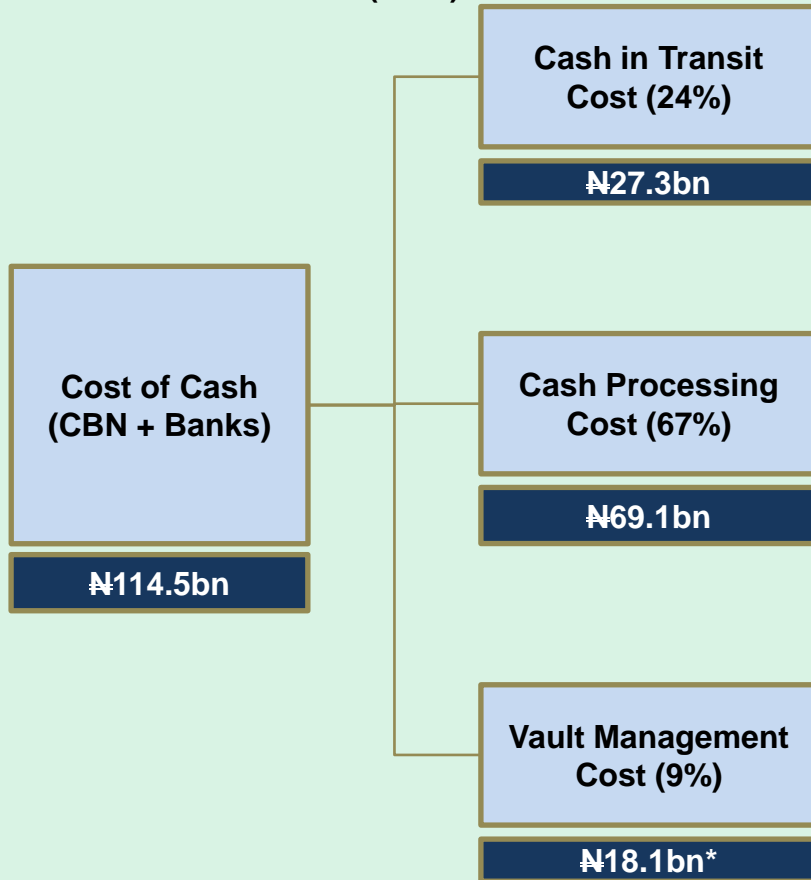
Initiative

Implications

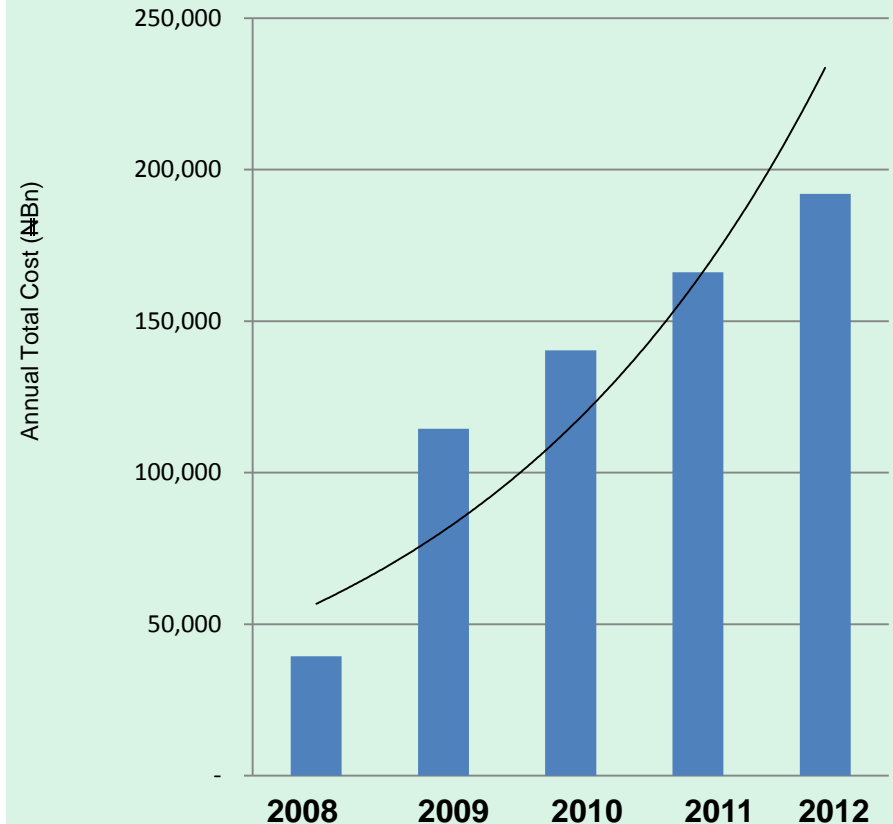
Cost of cash to Nigeria's financial system is high and increasing. In fact, direct cost of cash is estimated to reach N192 billion in 2012



Direct cost* of cash to Financial system (2009)



A 5-year projection of the direct cost of cash to Financial System



Source: A compilation of actual data from the CBN and 17 banks in the FSI (data extrapolated for 24 Banks).

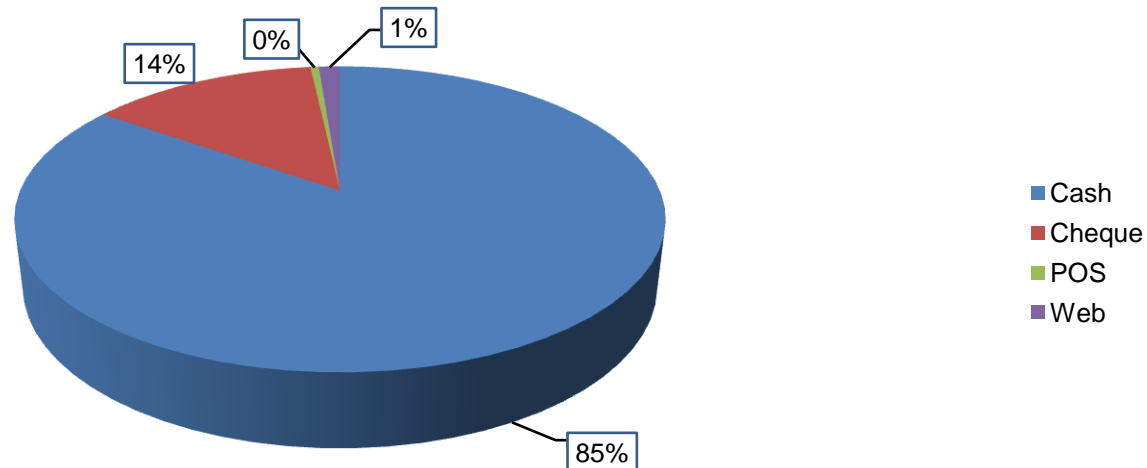
*Does not include bank cash infrastructure costs and employee costs attributable to cash logistics

Nigeria is a cash based economy with retail and commercial payments primarily made in cash



Cash related transactions represented over 99% of customer activity in Nigerian banks as at December 2011.

Payment Channel	Transaction Volume
<i>ATM Withdrawals</i>	109,592,646
<i>OTC Cash Withdrawals</i>	72,499,812*
Cheques	29,159,960
POS	1,059,069
Web	2,703,516

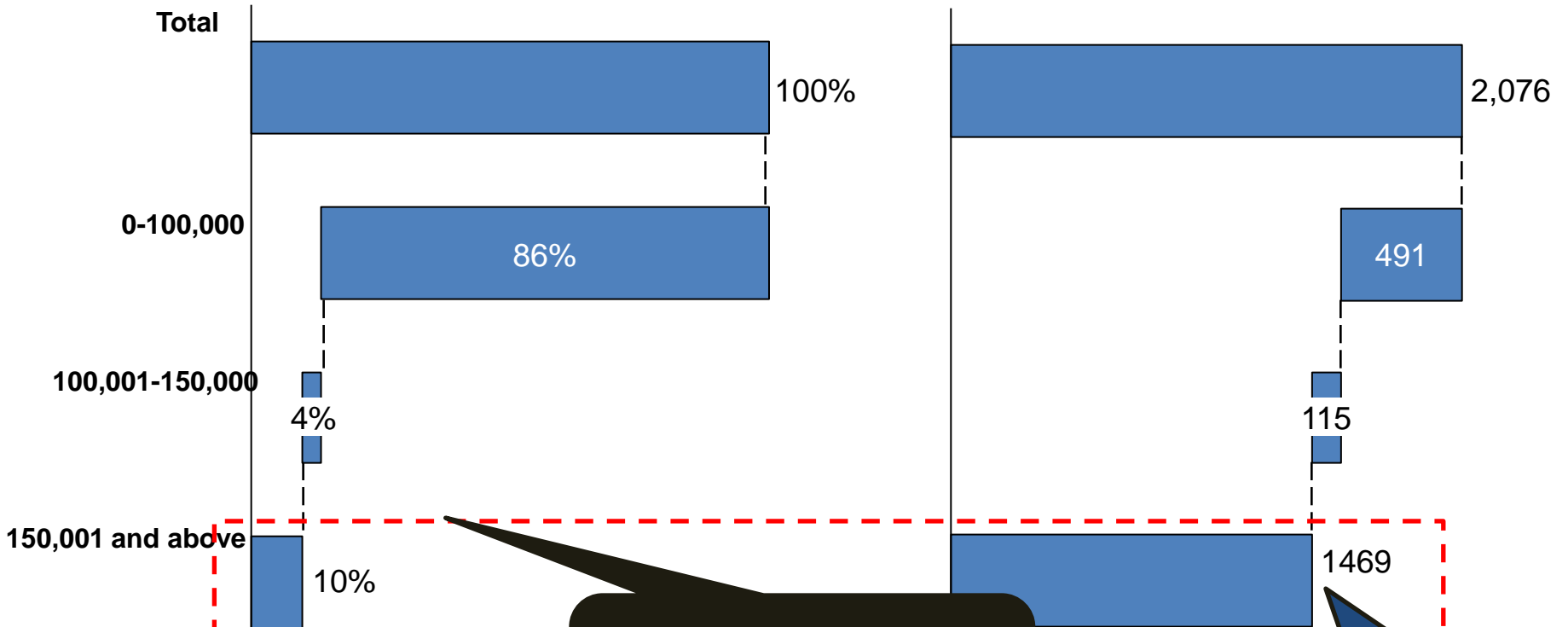


However, only 10% of branch cash transactions are above N150,000, but they make up ~71% of the value of cash transactions



Branch Cash transactions– number of transactions

Branch cash transactions - value of transactions(N'Bn)



10% of number of cash transactions are above N150,000

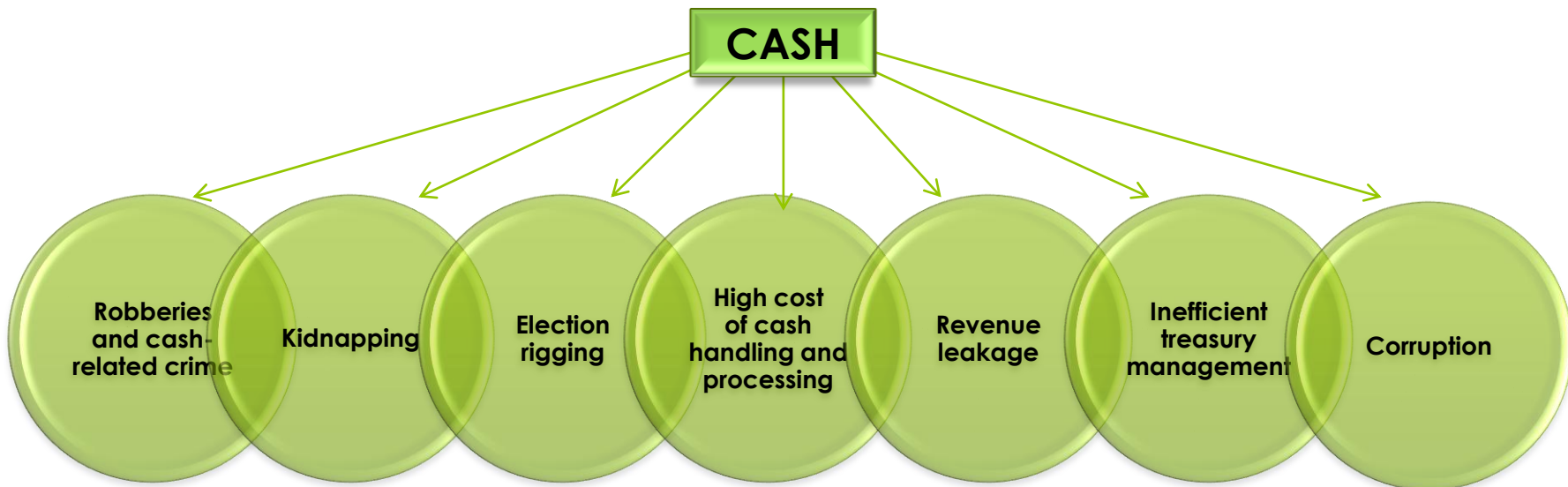
But accounts for 71% in value of cash transactions

* Base data is reflective of the Nigerian Banking Industry

Consequences of Heavy Cash Usage



Cash is an integral element that fuels several vices in Nigeria, alternative payment channels will have considerable positive consequences on the economy.



In addition, the high usage of cash results in a number of challenges across the system



Example of challenges resulting from high-cash usage (Not Exhaustive)

- **Robberies and cash-related crime**
- **High cost of processing borne by every entity across the value chain** (i.e. from CBN, to Banks, to the operating entities as well (e.g. staff required to process cash transactions, manual operating systems, etc))
- **Revenue leakage arising from significant handling of cash**
- **Inefficient treasury management due to nature of cash processing**

To address these challenges, the Cash policy was introduced to encourage cashless payments, while ensuring not all consumers subsidize the few 'heavy cash' users



Key Components of Cash Policy Circular

- Commencing from **June 1, 2012**, a **daily cumulative limit of N500,000 and N3,000,000 on free cash withdrawals and lodgments** by individual and corporate customers respectively .
- Individuals and corporate organizations that make **cash transactions above the limits will be charged a penal fee of N20/thousand and N30/thousand** respectively for deposit amounts above the cumulative limits , **as well as N30/thousand and N50/thousand** respectively for withdrawal amounts above the cumulative limits.
- Furthermore, **3rd party cheques above N150,000 shall not be eligible for encashment over the counter**. Value for such cheques shall be received through the clearing house.
- **Banks will cease cash in transit lodgment** services rendered to merchant-customers from June 1, 2012 (to be replaced by CBN licensed CIT providers)
- **No card scheme shall operate exclusive acquirer agreement or contract** in Nigeria with effect from June 1, 2011

Implications & Priorities

- **Increasing availability and reliability of alternative payment channels**; as well as ensuring **effective settlement cycles**
- Ensuring appropriate options to **enable addition of 'new entrants' into the banking system** (e.g. KYC requirements)
- **Educating and creating awareness** amongst consumers, merchants, other stakeholders
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Objectives of the Cash Policy

The cash policy was introduced for a number of key reasons, including the need to;

- Meet Vision 2020 Requirement
- Modernise Nigeria's payment system
- Reduce the cost of banking services (cost of credit)
- Drive Financial Inclusion
- Improve effectiveness of Monetary Policy
- Reduce high security & safety risks
- Reduce high Subsidy (10% vs 90%)
- Foster Transparency and Curb Corruption/Leakages

Purpose:

- reduce (NOT ELIMINATE) the amount of physical cash (coins and notes) circulating in the economy,
- encourage more electronic-based transactions

Benefits of the Cash policy



A variety of benefits are expected to be derived by various stakeholders from an increased utilization of e-payment systems. These include:

For Government:

- Firmer grip on Monetary Policy, and its attendant effect on Inflation and economic stability;
- Increased / transparent tax collection;
- greater financial inclusion;
- Increased economic development;

For Corporations:

- Faster access to capital;
- Reduced revenue leakage; and
- Reduced cash handling costs.

For Consumers:

- Increased convenience;
- more service options;
- reduced risk of cash-related crimes;
- cheaper access to (out-of-branch) banking services and access to credit.

Significant opportunities exist for various stakeholders



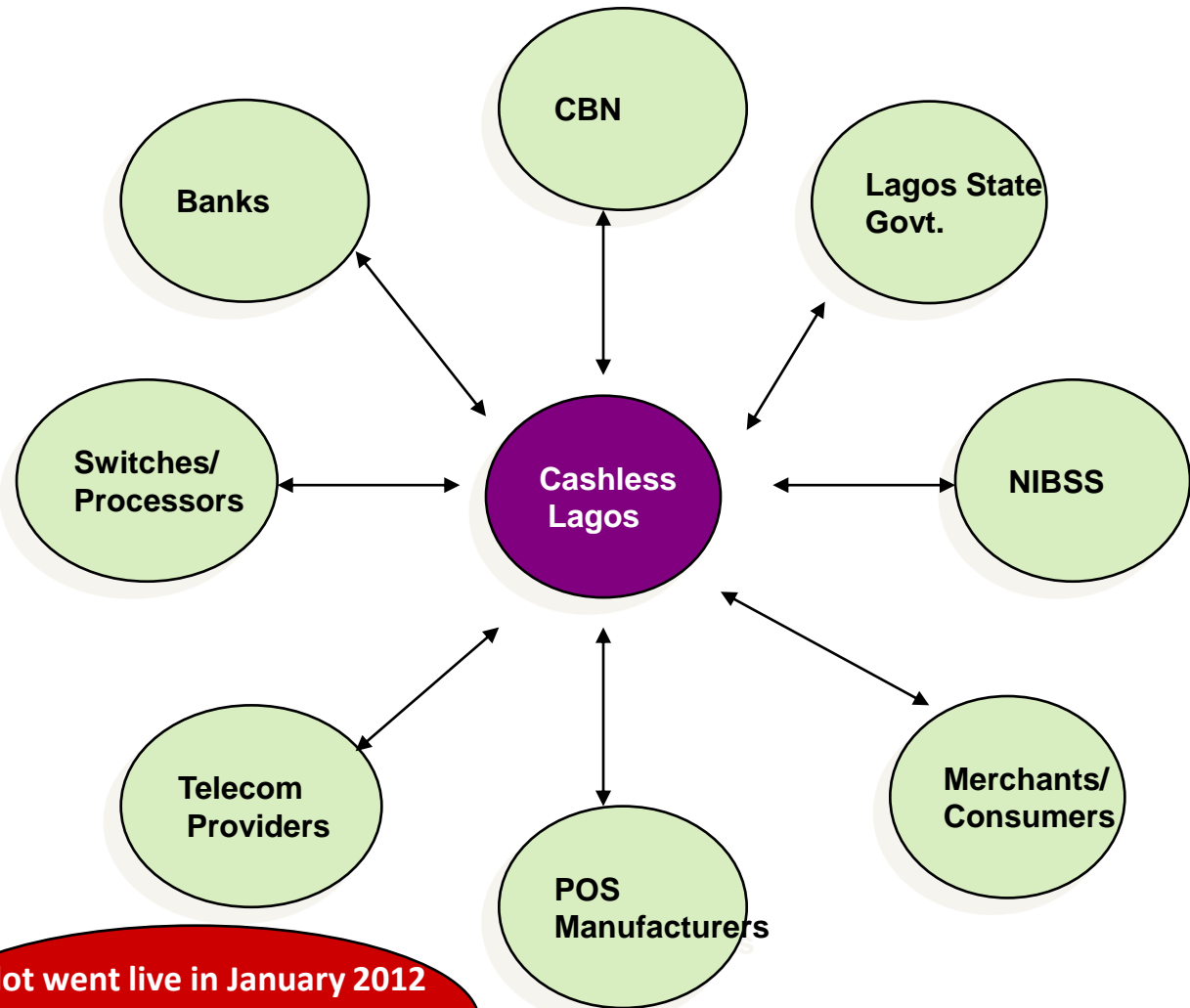
Stakeholders	Expected Benefits	Areas to support <i>(not exhaustive)</i>
Government	<ul style="list-style-type: none"> • Optimize tax revenue collection • Increased economic growth (positive correlation with increased payment efficiency) • Increased financial inclusion 	<ul style="list-style-type: none"> • Tax incentives to drive adoption of electronic payments • Laws to support electronic processing & payments • Continued support of E-payments drive through own internal processes
Consumers	<ul style="list-style-type: none"> • Faster, easier payments • Increased convenience/access (more payment options) • Reduced risk of robbery 	<ul style="list-style-type: none"> • Consumer sensitization & awareness • Consumer education – knowledge of their rights • Feedback forums to regularly engage various customer segments and monitor quality of dispute resolution
Corporations	<ul style="list-style-type: none"> • Better access to capital due to shorter payment processing times • Increased efficiency of payment processes and accounting • Reduced revenue leakages • More efficient treasury management 	<ul style="list-style-type: none"> • Embrace alternative channels – for internal use and dealing with 3rd parties (<i>proactively engage banks on solutions; electronic bill payments, etc</i>) • Sign-up for Direct Debit (<i>where applicable</i>) • Transfer some of efficiency benefits to customers via incentives to encourage e-channels
Banks	<ul style="list-style-type: none"> • Efficiency through electronic payment processing • Reduced cost of operations (cash handling) • Increased banking penetration 	<ul style="list-style-type: none"> • Increase availability, functionality, and dispute resolution process for e-channel solutions • Begin customer engagement on alternative platforms now & participate in engagement sessions • Order POS terminals & source merchants • Leverage NIBSS service offerings

“Cashless Lagos” is the cross-industry collaborative effort executing the payments transformation plan in Lagos state



GOALS:

- Implement new cash policy and demonstrate Feasibility/Benefits
- Significantly increase POS penetration and usage
- Significantly push awareness and usage of other electronic channels (e.g. *Direct Debit, Electronic Funds Transfer, Mobile payments, ATMs etc*)

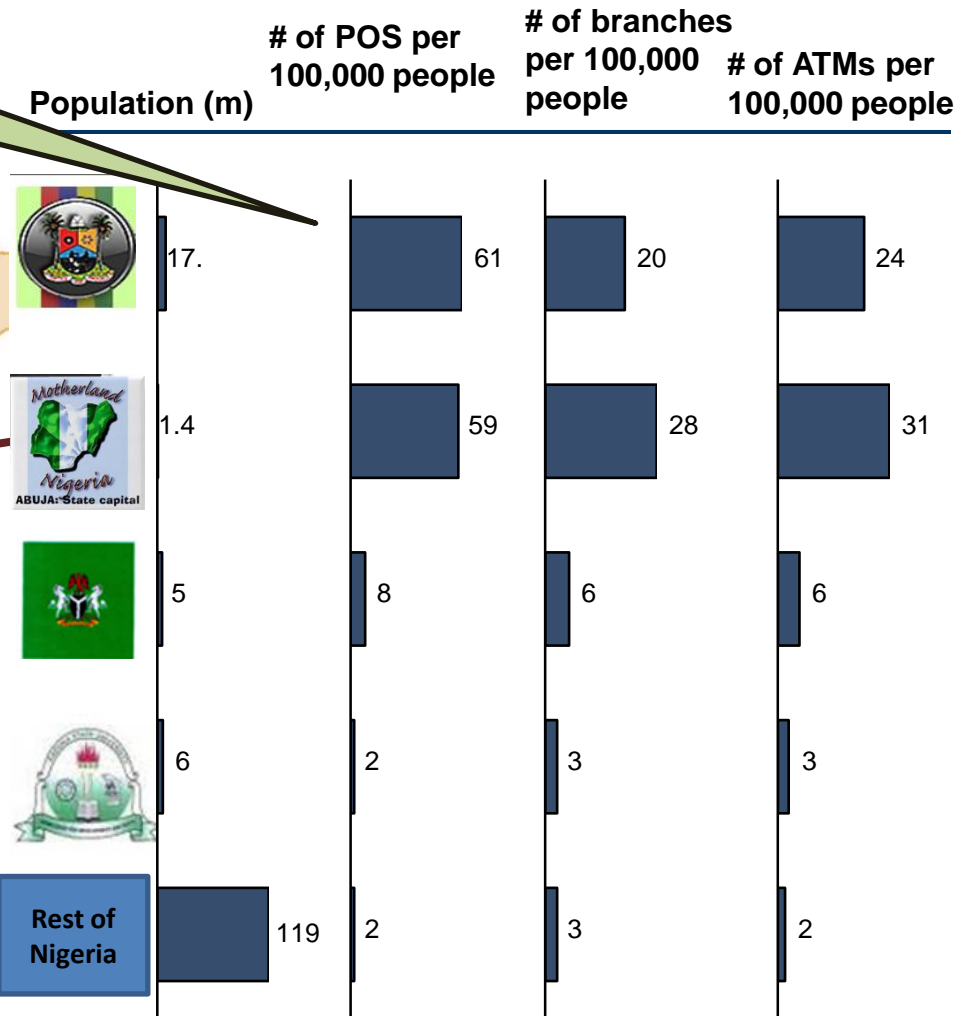


**Pilot went live in January 2012
and service charge started on
April 1st**

Why Lagos? - Lagos is ahead of other States in terms of banking penetration and payment infrastructure



Lagos accounts for 85% of POS transactions; and ~66% of cheques*



* 2009 Data

Cashless Lagos: Alternatives to cash was made available for both retail and wholesale cash users



Industry stakeholders are jointly working together to increase the alternative channel penetration, functionality, and ease-of-use

- **Point-Of-Sale Systems:** Card Neutral (Interoperability); Improved Connectivity; Greater reach/deployment, T+1 settlement
- **Mobile Payments:** sixteen players fully licensed; few others in pilot mode
- **Multi-functional ATMs:** Withdrawal, Cash-deposit, Bill payments, etc
- **Internet Banking:** Intra and Inter Bank funds transfer
- **(Instant) Electronic Funds Transfer:** Instant transfer option currently offered through NIBSS
- **Direct Debits:** Automated Direct Debit option being piloted with a few Banks and Billers



Communication



Communication for cash-less Lagos was done in two stages.

STAGE 1

Extensive stakeholder sessions were held in Lagos to get feedback from the users of the Cash policy.

Stakeholders Engaged were grouped into Industry Sectors as follows:

- ❖ LAGOS STATE GOVERNMENT PARASTATALS
- ❖ TRADE ASSOCIATIONS
- ❖ ARTISANS
- ❖ FINANCIAL INSTITUTIONS
- ❖ RELIGIOUS BODIES
- ❖ ASSOCIATION OF PROFESSIONAL BODIES OF NIGERIA
- ❖ FEDERAL AGENCIES-LAGOS CHAPTER
- ❖ STUDENT BODY
- ❖ EDUCATIONAL INSTITUTIONS
- ❖ GRASSROOTS/MARKET GROUPS

These sessions were publicized with very high turn out of people.

STAGE 2

Mass communication on TV and Radio(multi-language); Social media(Facebook, Twitter, cashless website), billboards, public transport, etc has been on full swing and is ongoing.

Communication (cont'd)



The office is still working with the Corporate Communication department and a Service Provider (Prima Garnet) to:

1. Create a mass media campaign that captivates and delivers a message that will help change the psyche of the reader, viewer, listener, etc. depending on the channel used.
2. Various mediums have been employed in communications and they include-
 - Stakeholder Engagement Sessions
 - Radio and Television
 - Newspaper, magazines and billboards
 - Social media-Facebook, Twitter, Website

Nationwide sensitization on cash-less policy will commence soon while the sensitization of CBN staff bank-wide began with the Bank's Knowledge Sharing Session in May 2012. Collaborating with Branch Controllers for seamless rollout to other states.

There has been various interviews on radio and TV in different states, while engagement of groups, associations, etc. is ongoing on invitation basis.

POS Deployment status update



In line with the Bankers Committee desire to increase the POS density, the Shared Services Office embarked on a number of initiatives to achieve the set objective. Notable among them are

- Issued POS Guidelines
- Negotiated discounts with POS manufacturers
- Licensed PTSPs and PTSA
- Encouraged banks to order and deploy POS
- Monitor performances of banks, PTSA, PTSPs in respect of POS deployment

POS Deployment and Performance



Features of the new POS:

- ✓ 24hrs battery life to help save on power outage
- ✓ 2 SIM slots for better connectivity
- ✓ Car charger for alternative charging
- ✓ Multi-functional for various transactions e.g. payment, Airtime top-up, cash-back option, etc.



Performance:

- POS deployment has been on the increase since December 2011
- The cumulative number of POS deployed /connected to NIBSS CTMS stood at 88,622 as at July 1, 2012. This represents an increase of over 100% above the 5,992 recorded as at end of January 2012.
- The target of purchasing at least 10,000 POS terminals per vendor has been met for three vendors
- Registered merchants reached an all time high at 151,717 as at July 2012.
- The gap between registered vs deployed, is mostly due to lack of capacity on the part of the PTSPs to meet the demand.

Agent Network Management



- ❑ The preference for post office is borne out of the need to leverage on existing assets to further drive down cost of taking payments and financial services to the poor
- ❑ It is also expected that this will be an avenue for addressing unemployment as efforts are being made to ensure that interested parties could easily set up a network with adequate training and back office support of professionals within the ubiquitous network of agents
- ❑ We are also encouraging integration of mobile payments with POS and ATM to facilitate cash-back services without human agent



Bank Coordinators Group



This working group is made up of representatives of all the banks in the country.

Information sharing

The group is mandated to meet on a regular basis as well as communicate on any issues that arise with the Cash policy implementation.

Issue resolution

Bank coordinators bring up issues from their banks, PTSPs and service providers to ensure prompt resolution for the smooth implementation of the policy.

Communication

Solutions on the best way to tackle issues that arise in the cash policy implementation are tackled and relayed to the foot-soldiers in the bank for effective communication.

Fraud management on the electronic payments landscape



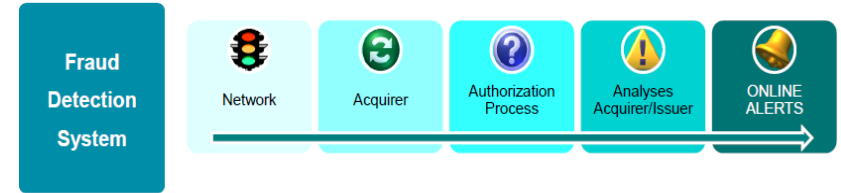
Nigeria achieved changeover from magnetic stripe based payment tokens and channels to CHIP +PIN compliant channel and tokens in 2010 in a bid to stem fraud in electronic payments thereby recording over 90% drop in card related fraud incidences

The CBN instituted an industry ATM Anti-Fraud Committee which has been recently up scaled to E-Payment Fraud Forum. This group ensures that our anti-fraud mechanism is kept abreast of new challenges for proactive response

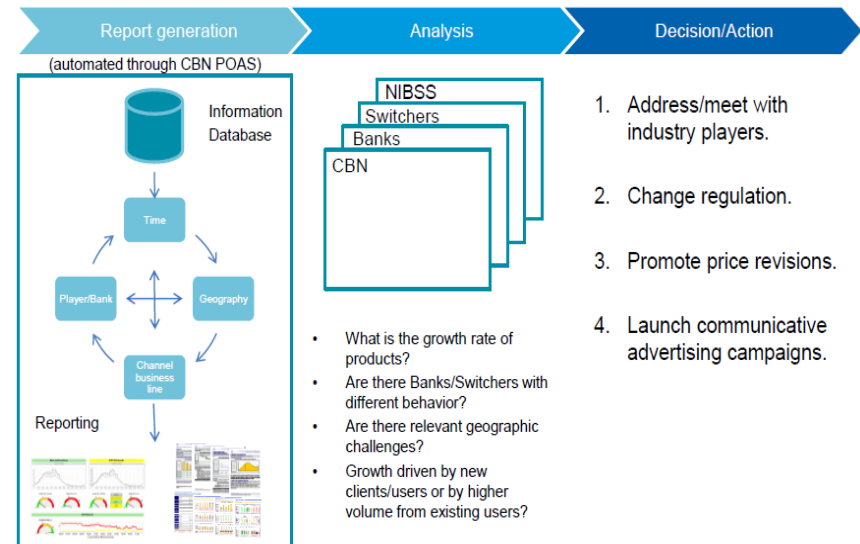
Credit/ Settlement Risk has been reduced by shorter clearing cycle

The CBN now has a Payments System Policy and Oversight Office which is saddled with the effective monitoring and regulation of the payments system

We are also in the process of acquiring a Payments System Oversight and Anti-Fraud System for online risk surveillance of the payments system



- Main Objectives**
- Detect potential fraud situations through the generation of online alerts as a result of transactions analysis.
 - Efficient process of documentation of potential fraud situations.
 - Minimize the impact of fraudulent situations.
 - Facilitate police work in identifying (and capturing) fraudsters.



Consumer Protection and Dispute Resolution



- ❖ Adoption of electronic payments is usually inhibited by poor dispute resolution and lax consumer protection regime. This can be more debilitating to the objective of financial inclusion for low income earners
- ❖ This realisation made the CBN to step up actions towards ensuring that users of payments services get adequate attention from providers.
- ❖ Creation of The Nigerian Electronic Fraud Forum (NEFF) to formulate cohesive and effective fraud risk management strategies.
- ❖ Additionally banks were made to publicise their complaint desk contacts as CBN leads the way in equally informing the public to contact our desks when there are deviations from the guidelines in the resolutions of their issues as promptly as stipulated
- ❖ While we are in the process of establishing the Office of the Ombudsman for financial services, the CBN has created a Consumer and Financial Protection Department to strengthen users' confidence and promote adoption.



Challenges



- Lack of **understanding** of cash policy amongst the banked & unbanked
- Resistance due to prevailing **cash culture**
- Techno-**fobia** (Literacy vs Numeracy)
- Infrastructure** Lag
- Distrust** in banking system
- Lack of **clarity** in communicating content of policy
- Lack of POS at **Priority Locations**
- Custom Challenges for **clearing**
- Exorbitant **bank charges** on e-payment products
- Need for **standardized pricing** to encourage usage and adoption
- Independent **online-real-time monitoring** of electronic channels uptime

Initial Ideas - How you can support..... (not exhaustive)



As Individuals....

- Sign-up for a Debit Card with your bank today! (*Various types, many benefits*)
- Use your card for payments – ask merchants for their card options
- Sign-up for electronic products (Internet Banking, Mobile Banking, etc)
- Inform and educate your circle of influence – spread the word!
- Other ideas????

As an Organization/Institution/Corporation....

- Report positive of the Cash policy and e-payment drive. As well as users-industries, stores, churches, etc.
- Electronic payments (Salaries)?
- Provide customers with electronic options for payments to you (discourage use of cash payments – e.g. cash limits)
- Pay your contractors/3rd parties electronically
- Other ideas????

Conclusion



The payment system in Nigeria has improved over time, evolving from manual processing of transactions to high tech IT applications, but this transformation has only been at the banking end of the chain. Although it has improved service greatly but the customer end is still lacking.

The cash policy seeks to affect the customer bit of the payment experience. Change the cash based nature of our everyday transactions and create a more technology savvy payment environment for every customer with its attendant positive impact on security, cheaper banking service and access to credit.



THANK YOU
FOR LISTENING!