Managing the transition to a cashless economy in Nigeria: The Challenges and Strategies

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Outline

• Introduction
• Cashless Nigeria - the Journey So Far
• Key Challenges for Nigeria
• Insights from other Jurisdictions
• Strategies for Transitioning
• Conclusion
The enabling regulatory and operating environment for cash management in Nigeria has evolved rapidly in recent years.

The CBN policy on cash handling is expected to be a major industry game changer as it will affect the overall operating model of a lot of businesses and consumer behaviour in Nigeria as we know it today.
Nigeria being a primarily cash based economy continues to see a rise in the cost of cash to the economy...

Estimated cost of cash to the Nigerian financial system in 2009

- **Cash-in-Transit Cost**: 24% (N27.3bn)
- **Cash Processing Cost**: 67% (N69.1bn)
- **Vault Management Cost**: 9% (N18.1bn)

Greater than N114.5bn

Cash related transactions represented over 99% of customer activity in Nigerian banks. Without appropriate intervention, The cost of cash handling is projected to exceed **N192 Billion** in 2012

Source: CBN Cashless Lagos Presentation
To demonstrate the feasibility and benefits of the policies promoting reduced cash handling, the CBN embarked on a pilot exercise - Cashless Lagos

**Key objectives of the CBN policy included:**

- 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

To achieve these objectives, the CBN prescribed punitive measures (charges on excess cash deposit/withdrawals) to force customers to utilise the cashless alternatives.
The benefits of a cashless society have been talked about widely...

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<tr>
<th>Reduced Cash Expenditure</th>
<th>More Effective Tax and Regulatory Policies</th>
<th>Positive impact on crime statistics</th>
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<tbody>
<tr>
<td>Government spends less printing currency</td>
<td>Income / expenditure can be properly assessed by the govt.</td>
<td>Reduction in robberies since banks and individuals carry less cash</td>
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<td>Banks spend less in cash handling costs</td>
<td>Effective fiscal control</td>
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<tr>
<th>Increased Operational Efficiency</th>
<th>Increased Financial Inclusion</th>
<th>Reduction in counterfeiting and money laundering</th>
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<td>Shorter transaction timelines</td>
<td>Banking services can be easily extended to the Un(der) banked</td>
<td>Money trails become obvious and traceable</td>
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<td>Increased transaction possibilities and convenience</td>
<td>Reduced transaction fees</td>
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Banks and non-bank financial institutions have embarked on key initiatives to promote the transition to cashless state

**Infrastructure**

- The number of PoS terminals has increased from 6,019 to 89,700 in the last 7 months
- Cash and cheque deposit ATMs are now gradually being introduced by various banks

**Regulatory Moves**

- New guidelines for Cheque Truncation in Nigeria have been introduced to reduce the cheque clearance duration and cost

**Services**

- Banks now offer new e-payment solutions which allow instantaneous inter-bank fund transfers from various platforms (mobile, internet, etc.)
- Availability of payment gateways is also creating a new wave of online businesses (e-commerce sites)

The award of 11 mobile money licenses to approved operators in 2011 is also expected to provide Nigerians with alternative access to financial services via mobile phones (i.e. leveraging mobile penetration).
Globally, cashless initiatives have traditionally failed to take root due to a number of concerns...

- Charges
- Cost
- Identity Management
- Security
- Fraud
- Consumer Literacy
- Social Infrastructure
- Credit History
- Technological Infrastructure
- Privacy Concerns
- Reliability of Platforms/Networks
- Dispute resolution
- Regulation
- Legal system
- Shortage of the right type of end devices
- Awareness
7 months into the pilot Cashless Lagos Scheme, some challenges have been experienced by stakeholders:

- The estimated 80,000+ PoS terminals deployed in Lagos appear to be insufficient and unevenly spread.
- Frequent instances of PoS terminals deployed but yet to be configured/setup for use.
- Difficulty in completing transactions due to frequent network downtime.
- Low uptake of PoS operation by merchant staff for reasons such as cumbersome process, lengthy transaction completion time, previous experience of availability/reliability issues, etc.
Cashless Lagos – Specific Challenges

- No clarity on how the handling charges will be allocated as some stakeholders (e.g. merchants) feel that they are at a disadvantage in terms of bearing these costs
- Complaints about the apparent lack of transparency in the way the settlements are carried out for POS transactions e.g. settlement reports from NIBSS is reported to shows transactions net of charges, thereby causing reconciliation issues for merchants
- Short Cash conversion cycle - Last mile consumer goods and beverage retailers/ traders would usually prefer to keep cash in-house to fund frequent replenishment of stock/ inventory/ in-bound supplies.
Cashless Lagos – Specific Challenges (cont’d)

- There is appears to be no clear and comprehensive electronic fraud management framework:
  - There are no clearly defined standards for data and network security across electronic payment channels
  - There is no clear delineation of responsibility for liability among key stakeholders in the event of a fraud event, etc
Cashless Lagos – Specific Challenges (cont’d)

- Adoption of mobile money continues to be hindered by issues aground interoperability of mobile money services amongst other factors.
- Lack of stability/ availability of mobile money platforms resulting in epileptic services.
- Integration issues:
  - across various service providers and mobile network operators has resulted in a lack of standardisation of USSD codes to facilitate on-boarding of customers.
  - between mobile money platforms and core banking systems in the case of bank-led models.
Cashless Lagos – Specific Challenges (cont’d)

- Campaigns appear not to have addressed the skepticism of customers and merchants about the benefits of alternative channels
  - The recent 2012 KPMG Banking Industry Survey indicated a low uptake by respondents on alternative channels other than ATMs:
    - ATMs – 82%
    - Internet Banking – 7%
    - Point of Sale – 6%
    - Mobile banking – 5%
- On going campaigns seem not to have effectively permeated the grass roots
- No apparent/ clear procedures or framework for the tracking, management and resolution of stakeholder (customers, merchants, etc) complaints
One cannot refuse to eat just because there is a chance of being choked.

~ Chinese Proverb
Several economies have introduced policies and strategies to counter issues currently faced by Nigeria

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<tr>
<th>Cost/ Charges</th>
<th>Identification</th>
<th>Infrastructure</th>
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<td>The Reserve Bank of India recently introduced RuPay – a cheaper alternative to the card-based payment systems such as Visa, MasterCard.</td>
<td>The Government of India has embarked on a universal identity scheme which is expected to aid the creation of unique electronic bank accounts amongst other uses.</td>
<td>The Indian government is currently implementing broadband connectivity to about 250,000 villages using optical fibre and wireless broadband to ease connectivity</td>
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<th>Dispute Resolution</th>
<th>Fraud/ Security</th>
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<td>The Indian government passed the Payment and Settlement Systems Act in 2007 as the Dispute Resolution Mechanism for adherence by system providers and system participants of all Payment Systems authorised to operate in the country.</td>
<td>To tackle cyber crime, the Council of the EU established a 5 year 2010 – 2012 plan focused on a strengthened partnership between public and private sector; improved knowledge and training among authorities involved in the fight against cybercrime and also reinforce technical and international co-operation</td>
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### Conclusion

- While some economies are much further along in the establishment of cashless alternatives, potential challenges still exist for the Nigerian banks and polity in this regard.
- The fragmented nature of the Nigerian industry could limit the speedy adoption of cashless alternatives in Nigeria. However, overall success will be hinged on timely execution of key imperatives:

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<th>Infrastructure Investment</th>
<th>Customer Sensitisation</th>
<th>Collaboration and Partnering</th>
<th>Risk Considerations</th>
<th>Governance</th>
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<td>Investment in requisite technology and infrastructures to enable seamless and efficient delivery of e-payment services across key channels</td>
<td>Collaboration between regulator and operators to educate and sensitise customers, while also ensuring optimal availability of payment services</td>
<td>Efficient coordination, communication and cooperation amongst participants (regulators, banks and non-banks) to facilitate interoperability, interconnectedness and security of the different payment schemes (cards, mobile payments etc.)</td>
<td>Establishment of risk mitigation/management frameworks to guard/mitigate against disruption and/or unintended benefits</td>
<td>Establishment of relevant governance structures (including dispute resolution) to ensure success of pilot programs</td>
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<td>Phased/controlled implementation (i.e. rigorously monitored test phases, pilot schemes)</td>
<td>Definition of industry standards and establishment of compliance monitoring frameworks</td>
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- The key is effective leverage of learnings from other jurisdictions and how the knowledge is utilised in managing and overcoming local challenges.
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