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

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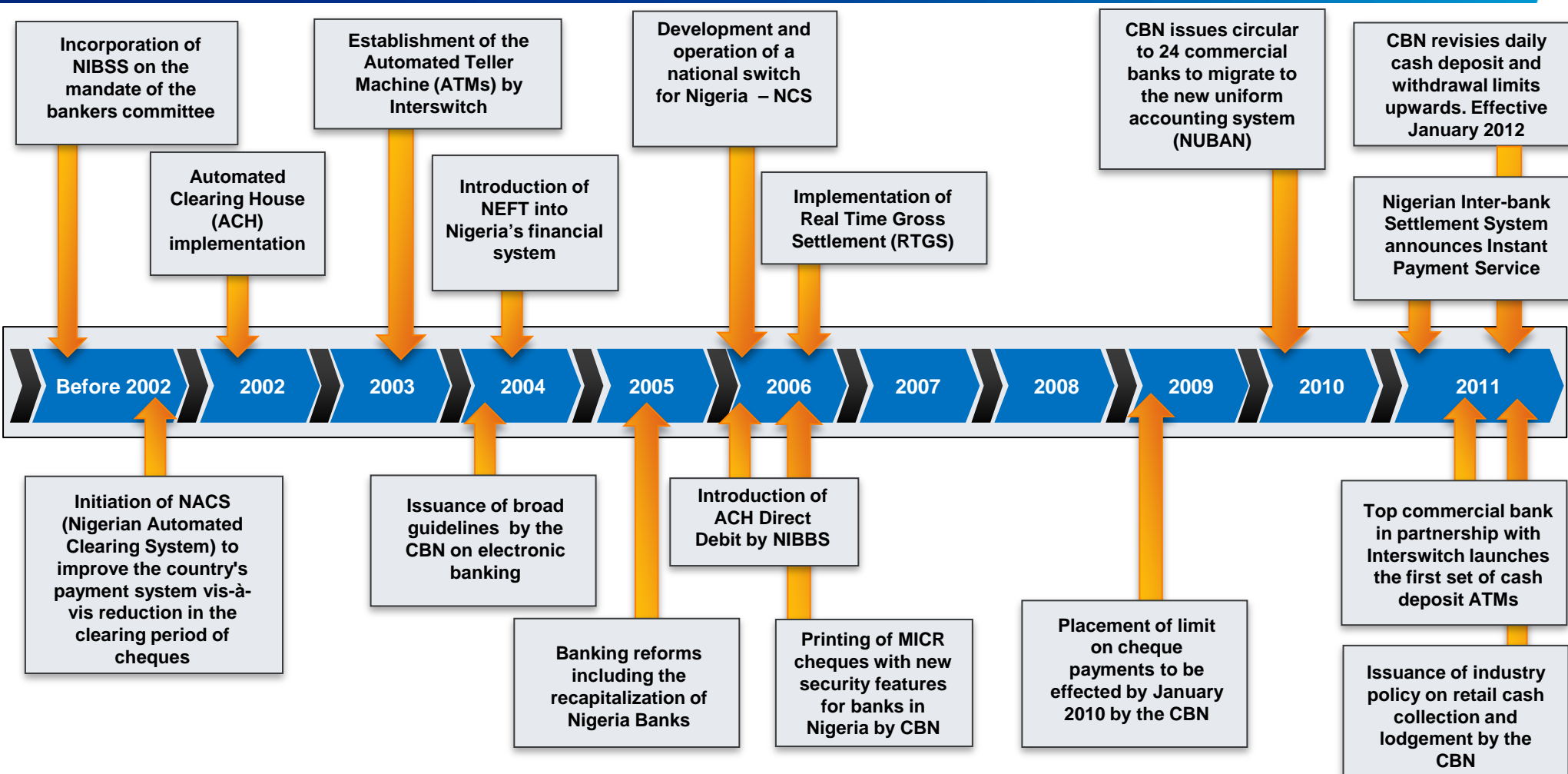
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- **Introduction**
- **Cashless Nigeria - the Journey So Far**
- **Key Challenges for Nigeria**
- **Insights from other Jurisdictions**
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- **Conclusion**

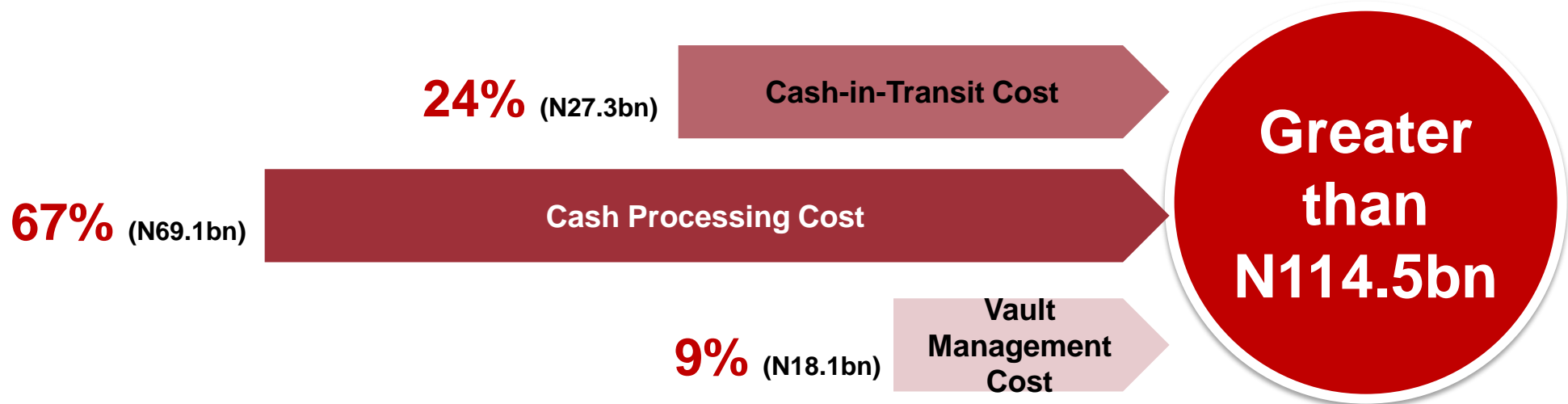
The enabling regulatory and operating environment for cash management in Nigeria has evolved rapidly in recent years



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 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.

cashless alternatives

The benefits of a cashless society have been talked about widely...

- Government spends less printing currency
- Banks spend less in cash handling costs

Reduced Cash Expenditure

Increased Operational Efficiency

- Shorter transaction timelines
- Increased transaction possibilities and convenience

- Income / expenditure can be properly assessed by the govt.
- Effective fiscal control

More Effective Tax and Regulatory Policies

Increased Financial Inclusion

- Banking services can be easily extended to the Un(der) banked
- Reduced transaction fees

- Reduction in robberies since banks and individuals carry less cash

Positive impact on crime statistics

Reduction in counterfeiting and money laundering

- Money trails become obvious and traceable

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

Shortage of the right type of end devices

Regulation

Identity

Legal system

**Reliability of Platforms/
Networks**

Management

Fraud

Security

Consumer Literacy

Dispute resolution

Social Infrastructure

Awareness

Credit

Technological Infrastructure

Privacy Concerns

History

7 months into the pilot Cashless Lagos Scheme, some challenges have been experienced by stakeholders



PoS Deployment, Configuration & Use

- 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



Charges/ Settlement/ Cash Conversion

- 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.



Fraud Management on Electronic Transactions

- 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



Standardisation / Interoperability of Mobile Money Services


- 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)



Communication and Change Management

- 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

Cost/ Charges

The Reserve Bank of India recently introduced RuPay – a cheaper alternative to the card-based payment systems such as Visa, MasterCard.

Identification

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.

Infrastructure

The Indian government is currently implementing broadband connectivity to about 250,000 villages using optical fibre and wireless broadband to ease connectivity

Dispute Resolution

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.

Fraud/ Security

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

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:

Infrastructure Investment	Customer Sensitisation	Collaboration and Partnering	Risk Considerations	Governance
<ul style="list-style-type: none"> ▪ Investment in requisite technology and infrastructures to enable seamless and efficient delivery of e-payment services across key channels 	<ul style="list-style-type: none"> ▪ Collaboration between regulator and operators to educate and sensitize customers, while also ensuring optimal availability of payment services 	<ul style="list-style-type: none"> ▪ Efficient coordination, communication and cooperation amongst participants (regulators, banks and non-banks) to facilitate inter-operability, interconnectivity and security of the different payment schemes (cards, mobile payments etc.) 	<ul style="list-style-type: none"> ▪ Establishment of risk mitigation/ management frameworks to guard / mitigate against disruption and/ or unintended benefits ▪ Phased/ controlled implementation (i.e. rigorously monitored test phases, pilot schemes) 	<ul style="list-style-type: none"> ▪ Establishment of relevant governance structures (including dispute resolution) to ensure success of pilot programs ▪ Definition of industry standards and establishment of compliance monitoring frameworks

- 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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