

KEYNOTE ADDRESS BY CHIEF (DR.) J.O. SANUSI,  
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AT THE 9<sup>TH</sup> MONETARY POLICY FORUM, ORGANISED  
BY THE CENTRAL BANK OF NIGERIA AT THE  
CENTRAL BANK AUDITORIUM,  
NEW CBN HEAD OFFICE, ABUJA ON MAY 6, 2004

Distinguished Senators,  
Honourable Members of the House of Representatives,  
Chief Executives of Banks,  
Captains of Industries,  
Distinguished Guests,  
Ladies and Gentlemen.

It is my pleasure to welcome you to this Monetary Policy forum organized by the Central Bank of Nigeria. It is the 9<sup>th</sup> in the series of such public discuss on major policy issues, which was initiated by the Bank in 2000. The theme of today's Forum, "Enhancing Efficiency of the Payments System in Nigeria", is both germane and relevant, given the priority attention accorded the payments system by central banks in financial sector reform agenda. Indeed, in an increasing number of developing and transition economies, the reform of the payments system is designed to facilitate monetary management through the adoption of market-based mechanism and enhance the payments services in the economy.

2. In recent times, a wide range of instruments have evolved following the worldwide financial liberalization and deregulation, which are also driven by developments in technology and the changing needs of economic agents as well as the increasingly competitive financial environment. There are several risks that are inherent in financial transactions, such as: liquidity, settlement, systemic, credit and operational risks. An efficient payments system attempts to eliminate, or at least minimize these risks. In view of the central role of the payments system as an integral part of monetary system in an economy, central banks are deeply concerned about the integrity of their payments system, globally.

3. Ladies and Gentlemen, the need for a continuous improvement in Nigeria's payments system cannot be overemphasized. Accordingly, this

forum has been organized to appraise our payments system and proffer suggestions for its improvement. As you are all aware, a well-designed and sound payments system that is responsive to the needs of individuals and business for safe and efficient funds transfer is an essential part of the financial market infrastructure. Nigerian payments system remains largely cash-based despite the current efforts to evolve a more efficient cashless society. For example, up until 2003, the currency ratio of narrow money ( $M_1$ ) was in excess of 40 per cent, compared to less than 10 per cent in most mature economies. This is not an ideal situation and calls for urgent reform measures. Nevertheless, it should be noted that payments system reform has wide-ranging implications for monetary policy as well as the development of interbank money and securities markets.

4. Presently, the financial system faces a number of challenges in payment processing, including the need for accurate and efficient processing, adherence to international standards, cost containment, shorter clearing cycles, risk reduction and fraud control.

5. The Central Bank of Nigeria has taken giant steps to ensure the smooth running of the payments system. Some of the actions taken include, the establishment of clearing houses across the country and sponsoring of legislations aimed at ensuring the soundness and stability of the banking system and restoring confidence in the system. These included the promulgation of the Dishonoured Cheques Offences Act and Failed Banks Financial Malpractices in Banks Act. In order to reduce the settlement cycle, the CBN also introduced the Magnetic Ink Character Recognition (MICR) processing, supported the setting up of the Nigeria Inter-bank Settlement System (NIBSS) and most recently, introduced a new cheque clearing and settlement arrangement. The introduction of the wide-area network has also reduced the cycle-time for intra-bank settlement.

6. One of the critical areas of the payments system development relates to electronic money. The development of e-money raises a number of issues of particular concern to central banks. These include: security and legal considerations, as well as regulatory issues.

7. Distinguished Ladies and Gentlemen, very knowledgeable and seasoned professionals have been assembled to lead the discussion in these areas. I therefore urge you to feel free to discuss frankly so that we can,

together, come up with recommendations for enhancing the efficiency of the payments system in Nigeria.

8. I thank you for your kind attention.

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May 6, 2004