



**CENTRAL BANK OF NIGERIA**

**UNDERSTANDING  
MONETARY POLICY SERIES  
NO 6**

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**THE NIGERIAN PAYMENT SYSTEM**

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# Central Bank of Nigeria

## Mandate

- 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
- Act as Banker and Provide Economic and Financial Advice to the Federal Government

## Vision

“To be a people-focused Central Bank promoting confidence in the economy and enabling an improved standard of living”

## Mission Statement

“To **ENSURE** Monetary, Price and Financial System Stability as a Catalyst for Inclusive Growth and Sustainable Economic Development.”

## Core Values

Integrity  
Partnership  
Accountability  
Courage  
Tenacity

# MONETARY POLICY DEPARTMENT

## Mandate

To Facilitate the Conceptualization and Design of  
Monetary Policy of the Central Bank of Nigeria

## Vision

To be Efficient and Effective in Promoting the  
Attainment and Sustenance of Monetary and  
Price Stability Objective of the  
Central Bank of Nigeria

## Mission

To Provide a Dynamic Evidence-based  
Analytical Framework for the Formulation and  
Implementation of Monetary Policy for  
Optimal Economic Growth

## FOREWORD

The Understanding Monetary Policy Series is designed to support the communication of monetary policy by the Central Bank of Nigeria (CBN). The series therefore, explain the basic concepts/operations, required to effectively understand the monetary policy framework of the Bank.

Monetary policy remains a very vague subject area to the vast majority of people in spite of the abundance of literature on the subject, most of which tend to adopt a formal and rigorous professional approach, typical of macroeconomic analysis.

In this series, public policy makers, policy analysts, businessmen, politicians, public sector administrators and other professionals, who are keen to learn the basic concepts of monetary policy and some technical aspects of central banking, would be treated to a menu of key monetary policy subject areas that will enrich their knowledge base of the key issues.

In order to achieve the primary objective of the series therefore, our target audience include people with little or no knowledge of macroeconomics and the science of central banking and yet are keen to follow the debate on monetary policy issues, and have a vision to extract beneficial information from the process. Others include those whose discussions of the central bank makes them crucial stakeholders. The series will therefore, be useful not only to policy makers, businessmen, academicians and investors, but to a wide range of people from all walks of life.

As a central bank, we hope that this series will help improve the level of literacy on monetary policy and demystify the general idea surrounding monetary policy formulation. We welcome insights from the public as we look forward to delivering contents that directly address the requirements of our readers and to ensure that the series are constantly updated, widely read and readily available to stakeholders.

**Hassan Mahmud**

*Director, Monetary Policy Department  
Central Bank of Nigeria*

## Abstracts

*This series discussed the characteristics of an efficient payments system highlighting the benefit and problem typically experienced in the payments system, bringing the Nigerian experience into perspective. Benefits such as the minimisation of the usage of cash, improved ease of settlement of transactions, reduced information security & operational risks and better access to credit, among others were identified. Identified challenges confronting the Nigerian payments system include: the continued preference for cash as a means payment, sharp practices amongst market participants, inadequate payments system infrastructure, and the fear of distress of financial institutions as a result of past experiences.*

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## **SECTION ONE**

### **Introduction**

A functional and efficient payments system is a very relevant part of a modern society to address the increasing sophistication of financial transactions to ensure that obligations are fully and efficiently settled. For the payments system to function effectively, the financial system must be properly developed and efficient. An efficient payments system minimizes liquidity, settlement, systemic, credit, information security, compliance, legal and regulatory, and operational risks which are inherent in financial transactions. For the effectiveness of monetary policy, central banks, across the globe, play a leading role in the development of appropriate payments policies and instruments. Responding efficiently to current and future payment needs of economic units while leveraging on new technological innovations to reduce costs and increase the speed of settlement.



## **SECTION TWO**

### **The Concept of Payments System**

A payments system refers to the established infrastructure (institutions, people, set of instruments, rules, procedures, standards and computer networks) through which financial obligations are discharged by economic agents. It entails the physical and organizational structure that enables the transfer of value between parties discharging mutual obligations. In other words, a payments system refers to an arrangement in the financial system which supports the transfer of funds from suppliers/savers to users/borrowers, and from payers to payees, usually through the exchange of obligations by financial institutions. A payments system comprises three main elements or processes – payment instruments, processing, and a means of settlement for the relevant banks ECB (2010). It consists of a paper-based mechanism for handling cheques and drafts, and a paperless mechanism (such as electronic funds transfer) for handling electronic commerce transactions.

The goal of any payments system is to ensure that the financial system operates without interruption so that transactions take place with minimum delay, low risk and are cost-efficient. Similarly, an efficient payments system reduces the cost of exchanging goods and services and is indispensable to the functioning of the inter-bank, money, and capital markets. It also underlies the optimal utilization of resources and enhances the implementation of monetary policy to achieve price stability. Furthermore, it is a channel for the settlement of all types of transactions including cross-border financial flows.

An efficient payments system must be supported by a sound legal basis, secure, reliable, accessible, prompt and cost-effective to meet the needs of all users. Its technical efficiency would determine the extent to which monetary transactions are consummated in any economy as well as the risks associated with its use. In contrast, a weak payments system may impact the stability and development of an economy, while its failures can result in inefficient use of financial resources.

#### **2.1 The Role of the Payments System in an Economy**

The payments system plays a crucial role in any economy as it remains the main channel for inter-sector, inter-industry, inter-company, and interpersonal financial resource flow, thus promoting economic growth, thus, representing the major foundation of the modern market economy. Essentially, there are four pivotal roles for the payments system, as shown below:

**a) Financial Intermediation**

The Deposit Money Banks (DMBs) provide services as financial intermediaries by making funds available to all economic agents. The payments system facilitates intermediation through the transfer of value from a payer/depositor to the payee/receiver of the fund, in the process of exchange of goods and services. Thus, the system is the channel through which liquidity and credit are transferred from one participant to another in the financial system.

**b) Facilitates Settlement of Transactions**

The payments system helps to speed up the exchange and settlement of funds and securities. In terms of settlement techniques, the payments system can be grouped into two: Real-Time Gross Settlement System (RTGS) and Deferred Settlement (Netting) System. RTGS is used by central banks for high-value payments and does not bear any credit risk as payments are settled in real-time. It is a system that enables banks to settle payments immediately and in full; however, liquidity issues could occur in the system which may require credit extension. One way to reduce such a system liquidity requirement is by using the deferred settlement system to net transactions. In a netting system, payment instructions are deferred until some designated time when banks exchange net amounts owed to each other. In other words, deferred net settlement system refers to an arrangement that affects the settlement of obligations or transfers between counterparties on a net basis at some later time.

**c) Minimizes Risks**

An efficient payments system minimizes liquidity, settlement, systemic, credit and operational risks involved in the transfer of monetary value that may arise from one or more economic units.

**d) Provides the Necessary Framework for Monetary Stability**

An efficient payments system is a precondition for the smooth functioning of the money/credit market and the safe execution of monetary policy operations that can guarantee moderation of interest rates. In essence, an efficient payments system enhances the implementation of monetary policy and the maintenance of monetary and price stability.

## SECTION THREE

### TYPE OF PAYMENTS SYSTEM AND INSTRUMENTS

Different types of payments system are available through different platforms and these can be broadly categorized into two: Retail/Small Value and Large Value/Wholesale payments system.

#### 3.1 Retail or Small Payments System

An individual with a payment card of any kind is part of the retail payments system. At the retail level, most transactions involve cash, cheques, draft, cards, and Automated Teller Machines (ATM), Automated Clearing House (ACH), bulk payments, etc. Retail processes are relatively small payments among consumers and businesses and are used primarily by the non-bank public for making and receiving payments.

##### 3.1.1 Instruments of Retail Payments

These payment instruments can be classified into four, namely: currency or cash; paper-based instruments; paperless or electronic instruments; and other instruments.

##### i. Currency or Cash

This instrument takes the form of banknotes and coins and is the most preferred method for small payments in Nigeria because it is free of credit risk.

##### ii. Paper-based Instruments

These include cheques, bank drafts and traveler's cheques. Despite the obvious advantage of these instruments over cash, their use is still very limited in Nigeria. This is due to the low level of trust and acceptability of the instruments for the settlement of obligations, predominance of peasantry in the real sector and informality in the trade sub-sector of the economy.

##### iii. Paperless or electronic instruments

Paperless or electronic instruments are essentially technology platforms such as Automated Teller Machines (ATM), Automated Clearing House (ACHs), point-of-sale terminals (PoS), internet payments, mobile telephones and wire transfers.

##### iv. Other Payments Instruments

Other paper-based instruments include postal orders, money orders, vouchers, and pre-paid cards. The use of these instruments is diminishing over time due to the

poor postal system, preferred use of banking services especially bank drafts or certified cheques and increased use of electronic payments instruments in the country.

### 3.2 Large-Value Inter-bank Payments (LVPs) or Wholesale Payments System.

This system typically processes critical high-value payments. LVPs are primarily used for corporate financial transactions. It enables payments to be made electronically within the country and transactions are settled in real-time. Other advantages of the system are its speed, reliability, safety, convenience, cost-effectiveness, and accuracy. However, if this system fails, it could trigger disruptions and transmit shocks to financial markets, the domestic economy as well as at cross-border levels. The LVP system is privately run by the Nigeria Interbank Settlement System (NIBSS) Plc.

#### 3.2.1 Instruments of Wholesale Payments System

##### i. The Real Time Gross Settlement (RTGS) System

RTGS systems are large-value funds transfer services that operate continuously during the business day to provide irrevocable settlement of payments obligations via the Central Bank. The most important feature of the RTGS system is that it provides instant settlement with finality as soon as payment instructions are received, provided that sufficient funds are available in the settlement account of the authorizing bank. In the RTGS system, **settlement** refers to the actual transfer of funds from the sending bank to a receiving bank. **Finality** refers to a settlement that is unconditional and irrevocable. On the other hand, **real-time** means that payment instructions are executed continuously as they enter the system, while **gross settlement** means that for each payment instruction, the total gross amount of funds is transferred.

To increase the efficiency of payments, the CBN commenced the operations of the RTGS system on December 18, 2006, and was named the "CBN Inter-bank Funds Transfer System (CIFT)". The system interfaces with the Bank's core banking application (the T24 System) and has all DMBs and discount houses as direct participants. The System allows participants to perform several transactions electronically from their offices, using the Terminal Access Device. Notable among the transactions that can be carried out, are inter-bank transfer, third party funds transfer (transfer on behalf of Bank A's customer to the account of Bank B's customer), account balance inquiries, queue management, report generation, and reconciliation.

The RTGS offers several other benefits which include a reduction of systemic risk, the elimination of settlement risks due to the irrevocability of payment messages, and enhanced efficiency of the monetary policy implementation process. The system is also capable of providing Delivery Versus Payments (DVP) for securities settlement and Payments Versus Payments (PVP) for foreign exchange settlements to reduce their risks.

**ii) Society for Worldwide Inter-bank Financial Telecommunication (SWIFT)**

It is designed for international payments using the messaging system. It facilitates international trade e.g. Letters of Credit, and transfers are characterized by high transaction costs denominated in US dollars because the network is not domiciled in Nigeria.





## SECTION FOUR

### THE PAYMENTS SYSTEM IN NIGERIA

The payments system in Nigeria was predominantly cash-based before the introduction of the cashless policy in 2011 (John *et. al.*, 2020). With the introduction of the cashless policy, payment operations became increasingly characterized by electronic funds transfers, ATMs, and other electronic payment systems. The value of electronic payments has thus, risen consistently since 2012 (see Table 1).

Value of E-Payment Channels from 2012 to 2019 in Trillion Naira												
Period	Cheques (N)	NEFT (N)	ATM (N)	POS (N)	WEB (N)	Mobile Money	NIP (N)	EBILLSPAY	REMITA	NAPS	M-CASH	CENTRALPAY
2019	4,481.67	25,132.00	6,512.61	3,204.75	478.14	5,080.96	105,222.56	652.59	20,724.63	0.60	5.48	441,905.96
2018	5,035.33	11,030.96	6,480.09	2,383.11	404.60	1,830.70	80,423.03	500.21	18,495.99	12,078.91	1.20	8.10
2017	5,381.91	14,946.46	6,437.59	1,409.81	184.60	1,102.00	56,165.67	550.75	13,529.50	4,960.35	0.62	5.00
2016	5,829.55	14,584.80	4,988.13	759.00	132.36	756.90	38,109.06	339.41	10,652.49	753.69	-	1.44
2015	6,195.46	13,087.09	3,971.65	448.51	91.58	442.35	25,540.84	217.43	6,223.45	98.68	-	0.31
2014	7,269.08	14,563.80	3,681.98	312.07	74.21	339.24	19,921.50	44.33	4,914.14	-	-	-
2013	7,708.67	14,367.95	2,830.53	161.21	47.32	143.37	10,848.73	0.02	-	-	-	-
2012	7,487.41	13,753.18	1,984.99	48.46	31.57	31.51	3,890.26	-	-	-	-	-

Source: CBN website

Over the last 50 years, the CBN has put in place several measures to strengthen its internal capacity to cope with rapid developments in the payments system. These include regular issuance of relevant rules, as well as regulations and guidelines which enables the Bank to exercise greater and more effective surveillance over the system. The four associated national institutional frameworks include: The National Payments System Committee (NPSC), The Payments System's Vision (PSV) 2020, The National Payment System Working Groups (NPSWG) and The Payment Infrastructure and Strategy Committee (PISC).

The PSV 2020 is targeted at seven major payment processes which include: government supplier payments, person-to-person payments, salary payments, bill payments, business tax payments, individual tax payments and securities settlements (CBN Briefs 2012/2013). Successful implementation of the PSV 2020 led to improvements in institutional, infrastructural, and payments (products) capacity with ongoing reviews and regulations to sustain and improve the payments system in Nigeria.

To further strengthen the payments systems, the CBN, from time to time, releases, and updates guidelines. Some of the recent improvements to the payments system

include the new license categorization for the payments system, framework for regulatory sandbox operations, and Quick Response (QR) payments solutions.

To encourage the use of cheques, the CBN mounted a national campaign to promote the use of payment orders. Also, the Foreign Exchange (Monitoring and Miscellaneous Provision) Decree No. 17 of 1995 (section 21) was promulgated to prohibit the use of cash in paying for landed property, stocks, shares, debentures and all forms of negotiable instruments; and to encourage the use of bank transfers and cheques.

The Bank continues to focus on strengthening its institutional and regulatory framework to facilitate financial inclusion and promote the usage of electronic payments.

#### **4.1 The Structure of the Nigeria Payments System**

##### **(a) Currency or Cash**

The core of the payments system in Nigeria is the currency, comprising notes and coins, and is highly prone to the risk of loss, theft, accident, counterfeiting, etc.

The currency structure, which hitherto consisted mainly of smaller denominations of 50k, N1, N2, N5 coins and N10, N20, N50 notes, has been restructured to include higher denominations of N100, N200, N500 and N1000 notes.

The cash payments system in Nigeria has continued to co-exist with non-cash payments scheme. However, the adoption of more recent system technology has led to increased values and volumes of electronic transactions (NIBSS, 2020).

##### **(b) Non-Cash Payments System**

Non-cash payments system available in the country includes the Bankers Clearing House (Inter-bank Clearing) System, Inter-bank Settlement System, the Securities Clearing System, and other types of electronic payment systems.

###### **i. Inter-Bank Clearing System (Bankers Clearing House System)**

The CBN established the first clearinghouse in May 1961 to facilitate the clearing of cheques and promote effective payments. Thereafter, as Central Bank branches were opened in state capitals, clearinghouses were also opened in these branches. At end of December 2012, there were twenty-one clearing houses in operations in State Capitals and the Federal Capital Territory, Abuja.

The Bank further introduced the implementation of the Magnetic Ink Character Recognition (MICR) programme in 1991 to modernize the processing of cheques

and other instruments. Members of the cheque clearing system in Nigeria include the CBN as superintendent and DMBs (clearing) as operators. The clearers (DMBs) deal in a dual capacity, first on their behalf and secondly, as agents to other DMBs that do not have direct access to clearing house facilities.

**ii. The Nigeria Inter-Bank Settlement System (NIBSS)**

To enhance the payments system, the Bankers' Committee established the Nigeria Inter-Bank Settlement System (NIBSS) in 1993 and it commenced operations in 1994, as a non-profit intermediary between banks. It complements the Central Bank's clearing and settlement procedures to minimize payment bottlenecks and settlement delays as well as provide same-day clearing and settlement of high-value inter-bank transfers. It is a fully computerised system delivering real-time services to the banking system. The CBN is not an equity participant but has a voting right and chairs the NIBSS as the apex financial sector regulatory institution.

**iii. The Nigeria Automated Clearing System (NACS)**

In collaboration with the Bankers Committee, the CBN launched the Nigeria Automated Clearing System (NACS) on October 21, 2002. This was in response to delays associated with the implementation of the Magnetic Ink Character Recognition (MICR) clearing system. NACS facilitates the automated clearing and processing of cheques online using a combination of MICR and imaging technology. Under the system, cheques are captured and processed at high speed with the use of a reader/sorter machine and state-of-the-art computer technology. The NACS provides the anchor for the electronic payments system in Nigeria.

In addition to these systems, the Cheque Truncating and Conversion System (CTCS) was introduced to implement a paperless cheque clearing process, achieve a common day hold throughout the nation and increase the efficiency of the clearing and settlement process. In the CTCS, the clearing of cheques is based on the image and MICR Code-line data of the cheque rather than the physical cheque, the image and data of the cheque, such as the MICR field, date of presentation, presenting bank, etc., is transmitted electronically throughout the clearing process. Thus, there will be no need to move the physical cheque from the collecting bank to the clearinghouse and the paying bank. With the use of the CTCS, the efficiency of cheque clearing has now been standardized to T+1 settlement.

**iv. The New Settlement Framework**

The CBN introduced this new settlement system in April 2004, to minimize risk, further improve efficiency and eliminate settlement lag for high value and time-sensitive

payments. Under this framework, a new settlement classification was introduced which segmented banks into settlement and non-settlement banks. While settlement banks maintain settlement accounts with the CBN, the non-settlement banks maintain only operational accounts for limited transactions with the CBN. These are foreign exchange and inter-bank fund transfer accounts. Under the new arrangement, non-settlement banks are required to clear their cheques through settlement banks. It also involves an upward review of required clearing collateral to N15.00 billion for each bank that aspires to the status of a settlement bank.

Consequently, seven clearing banks that met the requirements for maintaining a clearing account, were appointed and designated "settlement Banks" in 2004. The number of settlement banks was further increased to 12 in 2006. The arrangement under this new system has enabled the non-settlement banks to maintain agency arrangements with the settlement banks.

The new clearing and settlement arrangement have reduced the various risk elements previously associated with earlier arrangements. The problems of distress and moral hazard, usually associated with overdrawn positions of banks, arising from cheque clearing, have been eliminated and the self-regulatory nature of the scheme has imposed some measure of discipline on the banks.

**v. The Nigeria Securities Clearing System (NSCS) and Central Securities Clearing System (CSCS)**

This system concentrates on securities transfer, which involves debt service and money market instruments with the NSE acting as superintendent of the trading activities. The main participants in these markets are the dealing members of the NSE, banks, and institutional investors (pension funds and insurance companies). Payments for securities are made through cheques, draft or same-day inter-bank, or electronic payments.

With the internationalisation of the NSE, a Central Securities Clearing System (CSCS) evolved in 1997, to clear and settle all listed securities including FGN development stocks, industrial loan stocks, preference stocks, and equities. The CSCS is an online automated securities trading system, which facilitates the electronic settlement of deals between stockbrokers and customers through the in-house clearing system and the NSE central computer via a communication network. Thus, a securities settlement system is the mechanism by which the purchase of a security is paid for and by which the title is transferred from the seller to the buyer.

**vi. The Nigeria Electronic Payments System**

These are non-paper computer-based technology payment instruments of which the electronic payments system is one. The electronic payments system is made possible by the existence of electronic money (e-money) which can be defined as a stored-value product in which a record of the funds or value available to the consumer for multipurpose use is stored on an electronic device held by the consumer. The electronic payments system is amenable to electronic platforms such as automated teller machines (ATM), point-of-sale (PoS) terminals, internet payment, plastic money (e.g e-purse, debit, and credit cards), mobile payment and wire transfers, etc.

Debit cards are the dominant card mechanism in Nigeria, they are also known as ATM cards. ATM usage exceeds PoS transactions given the current limited deployment of PoS terminals. Other means of Electronic Funds Transfers (EFT) in the country are the Automated Clearing Houses (ACH), Nigeria Electronic Fund Transfer (NEFT), NIBSS Fast Funds, RTGS, and SWIFT. Their wider introduction and use in Nigeria could contribute significantly to the improvement of the payments system. Banks are increasingly deploying electronic money instruments to aid service delivery, given their significant cost-effectiveness and operational efficiencies in the payments system.

**a) Electronic Cards**

Electronic cards are physical plastic cards that uniquely identify the holder and carry a monetary value that could be used as a means of settling financial obligations. There are three basic types of electronic cards namely: E-purse, Debit Cards, and Credit Cards.

- i. **E-Purse:** Also called electronic wallet, carries a pre-loaded monetary value and can be used as a means of payment for multiple small value purchases. ValueCard and SmartPay are the predominant types of plastic money in use in Nigeria.
  
- ii. **Credit Cards:** A credit card indicates that the holder has been given a line of credit by the issuer. Credit cards are used to facilitate transactions without the movement of currency or cash. This allows the holder to make purchases and/or make withdrawals of cash up to the pre-arranged card credit limit. The credit is settled either in part or in full within a specified period.

- iii. **Debit Cards:** Debit cards enable the holders to make purchases and withdrawals, charged directly to funds in their accounts. Examples of major debit cards include VISA, Eurocard, MasterCard, and American Express.

#### **b) Internet Banking**

Internet banking involves conducting banking transactions such as account inquiry, printing of statements of account, funds transfer, payments for goods and services, etc. on the internet using electronic tools such as computers outside the premises of the bank. E-commerce is greatly facilitated by internet banking and is mostly used to effect payments. Internet banking also uses the electronic card infrastructure for executing payment instructions and for the final settlement of goods and services between merchants and customers. Currently, the most common use of internet banking is for paying bills, funds transfer, and purchase of airline tickets.

#### **c) Telephone Banking**

These are banking services that customers of financial institutions can access using a telephone line as a link to the financial institution's computer centre. Services rendered through telephone banking include account balance inquiries, funds transfer, change of pin, and payment of bills.

#### **d) Mobile Banking**

Mobile banking involves the use of the mobile phone for the settlement of financial transactions. It supports person-to-person transfers with immediate availability of funds to the beneficiary. Mobile payments use the card infrastructure for funds transfer as well as secure SMS messaging for confirmation of receipts (to beneficiaries) and payments (to account holders who have given payment instructions). It is used for low-value transactions where speed of delivery is of the essence. The services covered under this product, include account balance inquiries, funds transfer, mobile phone top-up, changing passwords, and payment of bills.

### **4.2 Recent Developments in the Payments System in Nigeria**

The following developments were instituted by the CBN recently to support the payments system in Nigeria. These include;

- a. **Pre-authorisation and completion of sales transactions:** This was developed in a bid to deepen the adoption of various electronic payment options available to users, with a full compliance deadline of July 31, 2020.
- b. **Guidelines on the operations of electronic payments channels in Nigeria.** These include guidelines on the use and operation of ATMs, POS, mobile POS, and web acceptance services.

- c. **The approval and release of new license categorisation for the Nigerian payments system (NPS)** with a circular issued on December 9, 2020. The framework offers clarity for new and existing market participants given the significant evolution and innovation in the NPS. It highlights the broad categorisation of operators in the payments system framework, the minimum share capital approved for operators, and other requirements. The key highlights of the framework include:
  - i. Licence categorisation and permissible payment system activities. Payment system activities in Nigeria have now been classified into four broad categories – Switching and Processing, Mobile Money Operators (MMOs), Payment Solution Services (PSSs), and Regulatory Sandbox.
  - ii. Other regulatory requirements, such as the operation of a holding company structure, CBN approval, etc.
- d. **Revised standards on Nigeria Uniform Bank Account Number (NUBAN):** The NUBAN was introduced in August 2010 for Deposit Money Banks (DMBs). Given its huge success and the increasing role of Other Financial Institutions (OFIs) in the electronic payments system, the scope of the NUBAN has been expanded to include OFIs with a deadline of March 15, 2021, for full compliance.
- e. **The launch of the New Quick Response (NQR) code payment solution:** On March 16, 2021, the NQR code payment solution was implemented on behalf of all financial service providers. This solution offers a robust platform that delivers instant value for person-to-business (P2B) and person-to-person (P2P) transactions by simply scanning to pay.

## SECTION FIVE

### CHALLENGES AND CONSTRAINTS OF THE NIGERIAN PAYMENTS SYSTEM

Remarkable strides have been made in the country to improve and develop a viable, secure, and reliable payments system. However, several problems continue to mitigate optimal operations, growth, and development of the system. Some identifiable challenges include:

#### a) Cash Transactions

The Nigerian economy is still basically a cash economy and the recurring distress in the financial system has accentuated the reliance on cash for business transactions by bank customers. Cash transactions continue to be predominant despite inherent dangers, such as theft, counterfeiting, and the inconvenience of carrying large sums of currency. All these increases the cost of currency management, encourage money laundering, and facilitate leakages.

#### b) Infrastructural Deficiency

The poor state of infrastructural facilities for electronic communication and power supply hinders the smooth functioning of electronic payments. The prevalence of unreliable power supply and insecure wide area networks (WAN) have compelled financial institutions to incur high costs in satellite communication systems and private power supply facilities, with these costs transferred to their customers.

#### c) Sharp Practices

The prevalence of sharp practices and fraudulent schemes in Nigeria, often undermine the payments system. The sharp practices include deliberate misdirection and wrong delivery of clearing instruments as well as presentation of spurious and cloned cheques to paying banks. These are associated with cases of insider complicity in bank instrument fraud.

#### d) Distress in the Financial Sector

The recurrence of distress in the banking system negatively influences public confidence in banks and constitutes a serious threat to the smooth operations of the payments system.

Other challenges associated with e-payments system include:

**a) Low level of literacy:** electronic payments are a recent development in Nigeria. A large number of people thus, find it difficult to operate these systems, as they are largely driven by knowledge-based information technology which they are not familiar with;

**b) High charges:** withdrawing from ATMs other than that of the card-issuing bank (third-party ATM card withdrawal) attracts additional charges in Nigeria. There are also associated charges like VAT and commissions incurred using internet banking for settlement of bills;

**c) Low level of banking habit:** for most people to use the e-payment platform, they must be bank account holders. Non-ownership of accounts hinders the effective use of e-payments;

**d) Poor service delivery:** this is one of the major challenges of e-payment in Nigeria. Examples of poor services include insufficient funds in ATMs, network downtime,



dispensing errors, some ATMs are not user-friendly and old notes loaded in them make withdrawal difficult, poor human relations, and very long response time when attending to customer complaints.

- e) **Lack of accessibility to e-payment platforms:** Most people do not have access to ATM services as the coverage is still limited to some areas within the country.

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