

Payments System Transformation: Cash-less Nigeria Implementation




Central Bank of Nigeria



Presentation Outline

- The Shared Services Overview
- Why Cash-Less?
 - Consequences of Heavy Cash Usage
 - The Cash Policy
- Stakeholder Benefit
- Available Alternative Channels
- Enablers
- Achievements
- Challenges
- Key Stakeholders
- Role of Stakeholders
- Conclusion





It is safer to use cash! I won't dabble into anything else, not in Nigeria

This is the beginning of the end for corruption in Nigeria

Cashless initiative has impacted positively on our business transactions. I recommend it to all

How fast will the authorities come to my aid in case of trouble

The service charge per transaction is too high

But how many cards should each one have? ID Card, ATM card, Credit Card, Now POS card? Haba CBN!

Can I buy POS so that my children go dash me money with their ATM card?

ReeVolution

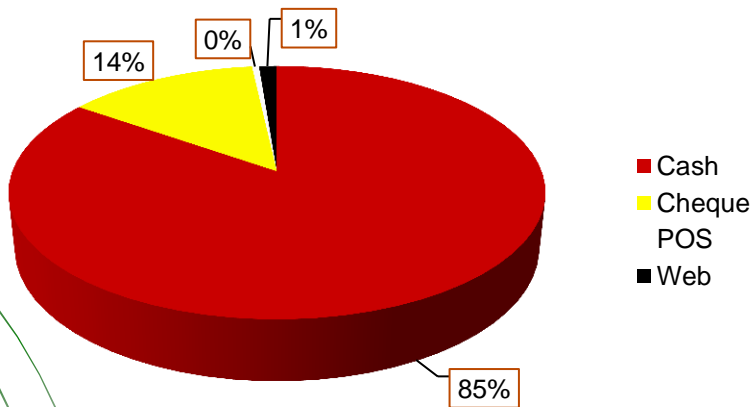
- Apathy experienced within the past 24 months has revealed 3 distinct kind of people.
 - **Those who clearly oppose the policy**
 - **Those who aren't sure**
 - **Those who believe and are ready to avail themselves of the benefit**



Why Cash-less?

In 2010 cash transactions represented over 99% of customer activity in banks.

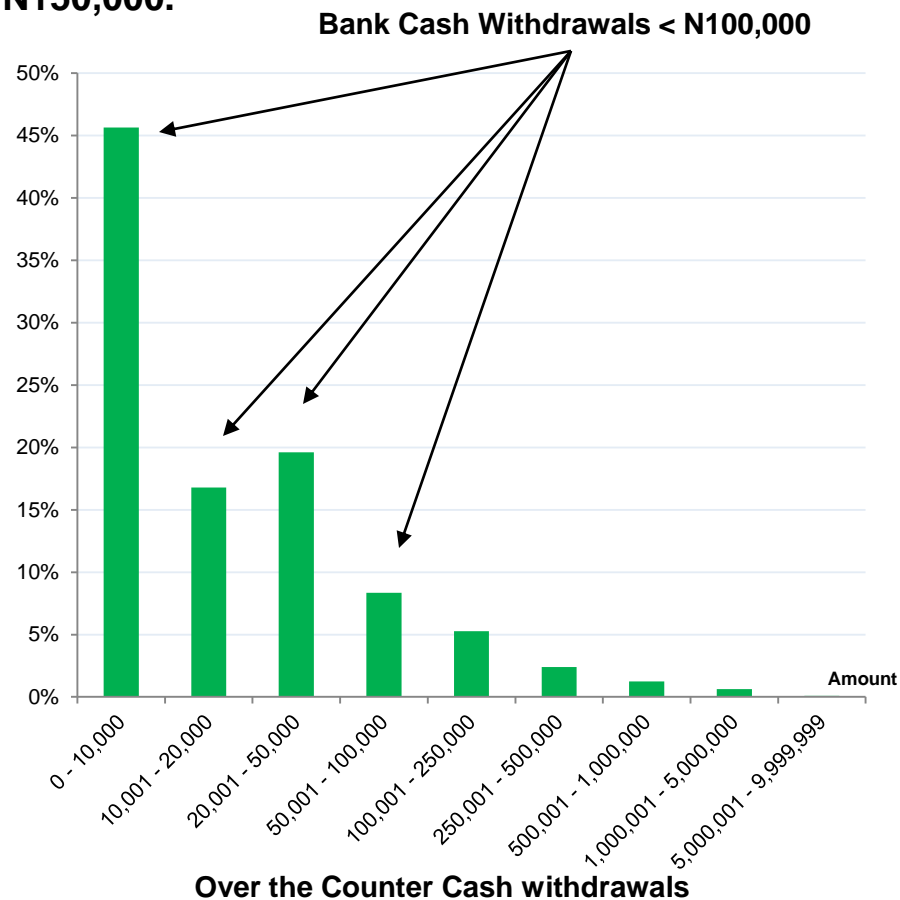
Payment Channel	Transaction Volume
ATM Withdrawals	109,592,646
OTC Cash Withdrawals	72,499,812*
Cheques	29,159,960
POS	1,059,069
Web	2,703,516



About 86% of in-branch bank cash withdrawals were less than ₦100,000 in value.

Less than 10% of transactions were more than ₦100,000

Only 10% of in-branch transactions were over ₦150,000.

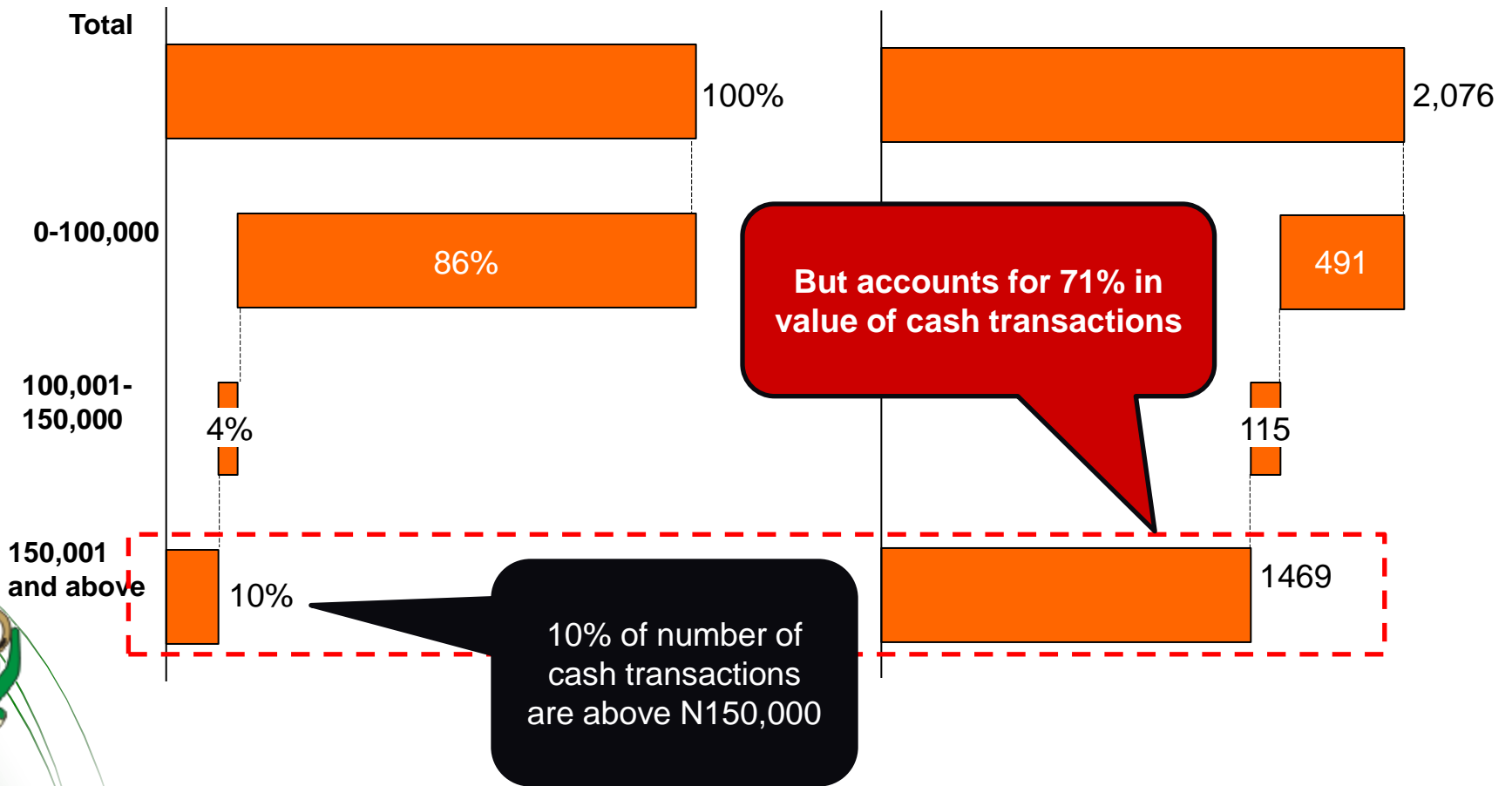


Why Cash-less? Cont'd

Customers Cash Transactions in Bank Branches

Branch Cash transactions– number of transactions

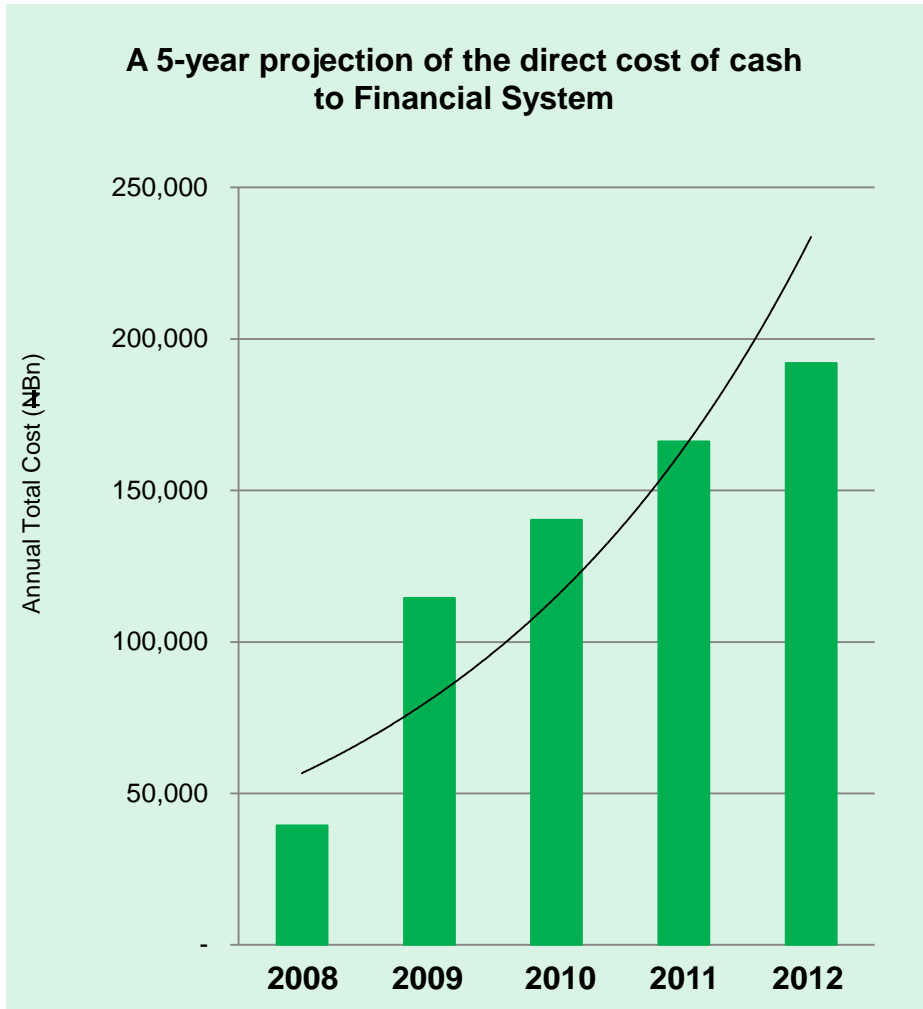
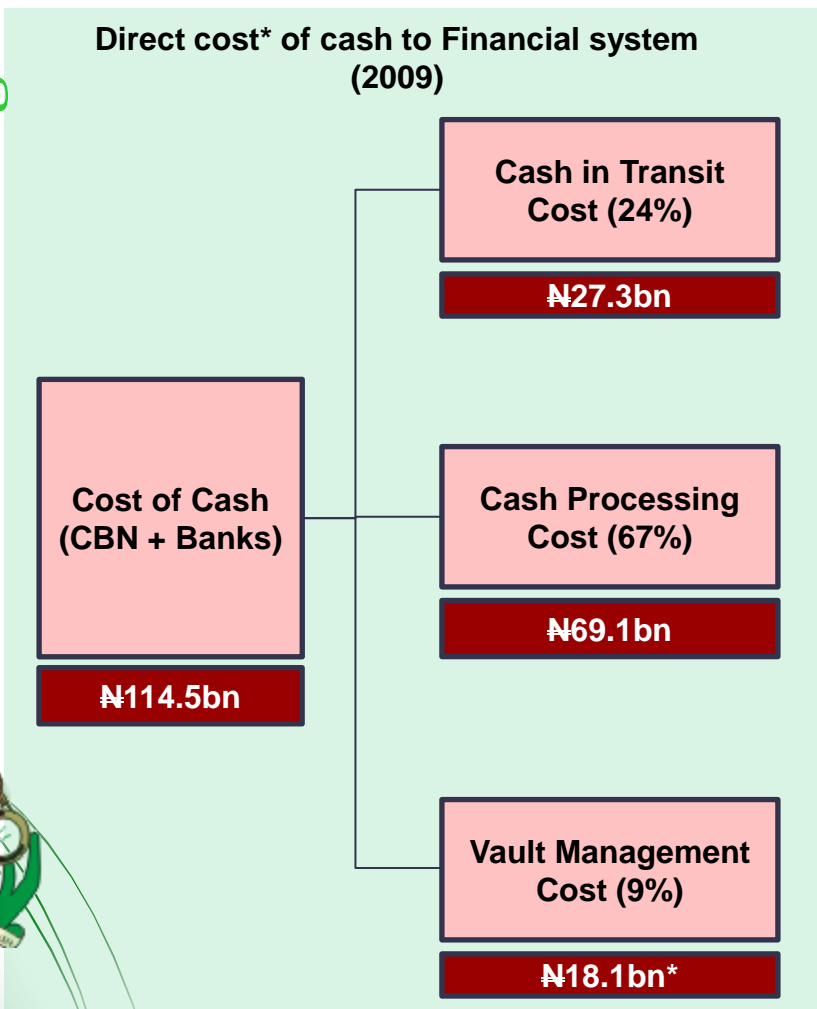
Branch cash transactions - value of transactions(N'Bn)



* Base data is reflective of the Nigerian Banking Industry

Why Cash-less? Cont'd

Cost of cash to Nigeria's financial system was high and increasing – direct cost of cash was estimated to reach N192bn in 2012



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

Why Cashless? Cont'd

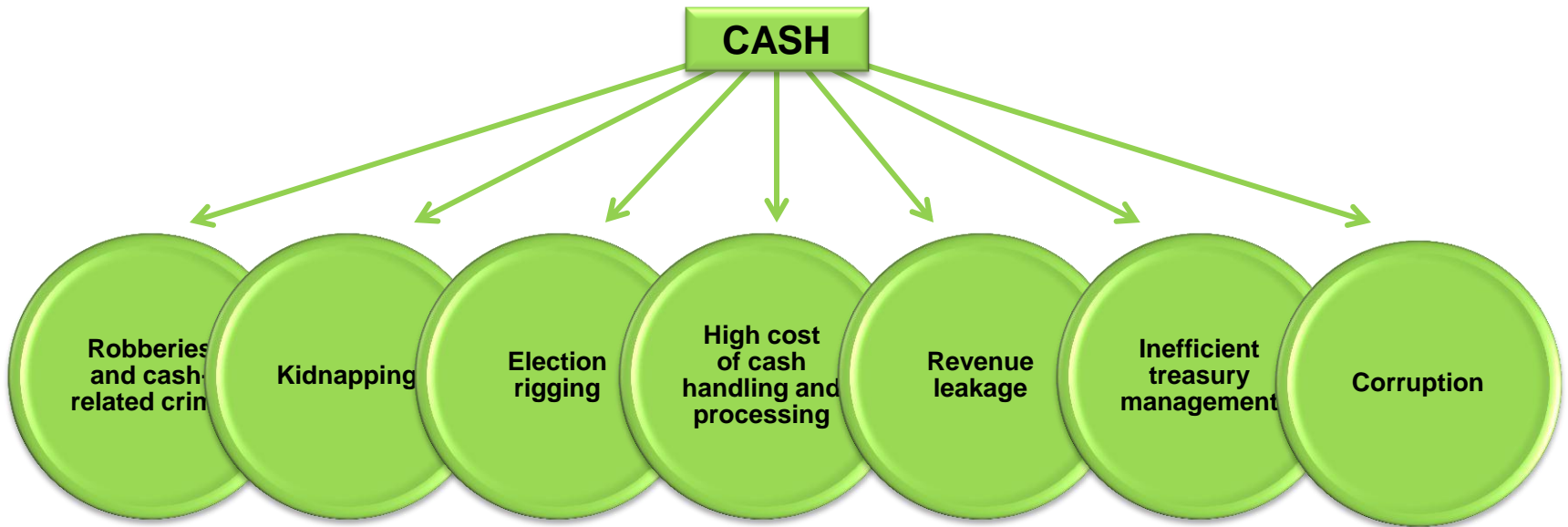
Additional Benefits

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

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.



Cash Policy

The reviewed CBN Cash Policy stipulates that;

- Beginning from **April 1, 2012** banks started to encourage their customers by educating and accommodating them to try other payment channels other than cash.- (Lagos Pilot)
- A 'processing fee' on **daily cash withdrawals** or cash **deposits** that exceed **₦500,000** for Individuals and **₦3,000,000** for Corporate bodies was instituted.

Account Type	Withdrawals/Lodgments Limits	Processing fee for withdrawals	Processing fee for lodgments
Individual	₦500,000	3%	2%
Corporate	₦3,000,000	5%	3%

- **3rd Party Cheques** above N150,000 was disallowed from being cashed over the counter nationwide effective June 1st 2013. They must be paid into an account.
- Banks have been mandated to discontinue cash in transit lodgement services. Cash in Transit firms have been licensed to provide there services.
- The **processing fee** took effect from **April 1, 2012**.
- From July 1st 2013, the policy was extended 5 other states : **Abia, Anambra, Kano, Ogun, Rivers and the FCT** and will be **extended nationwide by July 1, 2014**.
- Exemptions have been granted to Embassies & Diplomatic missions, and Ministries, Departments & Agencies (MDAs) of the federal and state govt. **on lodgments for revenue collections accounts ONLY.**



Stakeholder Benefits



Stakeholders	Expected Benefits	Areas to support
Government	<ul style="list-style-type: none"> • Firmer grip on Monetary Policy, and its attendant effect on Inflation and economic stability; • Increased / transparent tax collection; • greater financial inclusion; • Increased economic development; 	<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 • Leverage NIBSS service offerings

Alternative channels to cash available in Nigeria

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

- **Point-Of-Sale Terminals:** Card Neutral (Interoperability); Improved Connectivity; Greater reach/deployment, T+1 settlement
- **Mobile Payments:** 23 players fully licensed and are at various stages of commercial launch.
- **Multi-functional ATMs:** Withdrawal, Cash-deposit, Bill payments, Funds Transfer are available and are being actively spread nationwide.
- **Internet Banking:** Intra and Inter Bank funds transfer are very widely available and are very reliable and convenient for use.
- **Electronic Funds Transfer:** NIBSS has on offer the NIBSS Instant Payment (NIP) product and the NIBSS Electronic Funds Transfer (NEFT). These products have revolutionized funds transfer in the banking industry with quicker value value for inter-bank transfers.
- **Direct Debits:** Automated Direct Debit option available in Banks and some Billers



Enablers



Mass Sensitization

Mass sensitization has targeted key groups that will be most impacted by the cash policy, with the objective of creating awareness and providing an opportunity for them to raise issues and concerns.

- markets, associations,
- Community Leaders,
- professional bodies,
- Religious Organizations
- Students, etc.



Mass awareness campaign is covering Print, **Radio** (multi-language), **TV**, Social Media, Billboards etc. Some Banks also actively communicating their service offerings.



Agent Network Management

- Availing the financial industry the use of agency structure within mobile telecommunication value chain to enhance mobile money operations.
- Collaborating with Federal Ministry of Information Technology to leverage on existing assets of the postal system to further drive down cost of taking payments and financial services to the poor.
- We are also encouraging integration of mobile payments with POS and ATM to facilitate cash back services without human agent

Enablers Cont'd

Regulation & Guidelines

- Introduction of Chip & Pin
- Card Arbitration Framework
- Adoption of Payment Card Industry Security Standard (PCIDSS).
- Development of an **Industry Card Risk Assessment Framework**;
- Inauguration of the Nigerian Electronic Fraud Forum (NeFF)
 - Industry wide PCI, DSS compliance and re-certification
 - **Encryption and tokenization** of electronic transactions Enforcing investment in intelligent Authorization & Fraud detection software
 - Development of **dynamic Authentication** of Card Not Present Transactions
 - Enhancing **security on 3rd party applications**
 - **Consumer education** on security of electronic channels

Legislation & Legal Framework

Electronic Payments payment requires legislation and guidelines.

- **Electronic Evidence act** passed into law in 2013
- **Bills** awaiting the enactment before the National Assembly
 - Payment System Management Bill
 - Financial System Ombudsman bill



Enablers Cont'd

KYC & Identity Management

Electronic Payments payment carries much demand for identity management.

- Adoption of a Tired Know Your Customer (KYC) requirements to encourage adoption
- We have also embarked on a industry biometric solution project to uniquely identify deposit money bank customers in the first instance, while creating base information for a nationwide database when NIMC comes on stream.



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.

- Banks were made to publicize 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 creation of a Consumer Protection Department within CBN to strengthen users' confidence and promote adoption.
- Embarked on a nation-wide financial literacy programme to educate the populace, especially the unbanked and financially excluded.



Enablers Cont'd

Mobile Money as a major focus for Financial Inclusion

- The mobile phone is the most ubiquitous and cheapest electronic channel today.
- In Nigeria, there are over **100 million mobile phones available** to serve customers while there are less than **6,000 bank branches**, **10,000 ATMs**, and **200,000 POS** terminals and less than **20 million bank accounts**.
- The mobile phone is therefore the easiest route to the financial inclusion of the unbanked segment of the economy.
- Mobile Money entails the use of mobile phones as a banking tool both for the banked and the unbanked. With the mobile phone, people can open accounts, transfer funds, pay bills, purchase goods and services etc.
- There are currently 23 Mobile payment operators licensed in the country.





Challenges

The envisaged attitudinal changes expected from the public removes people from their comfort zone. This discomfort and the lack of clarity/understanding had hampered adoption and fueled conspiracy theories amongst our stake holding

- Lack of **understanding** of cash policy amongst the banked & unbanked
- Resistance due to prevailing **cash culture**
- Techno-**fobia**
- Illiteracy (Literacy vs Numeracy)
- Entrenched **poverty** (cant spend what you don't have)
- **Infrastructure** Lag
- **Distrust** in banking system
- Lack of **clarity** in communicating content of policy
- Merchant **apathy** – Benefits VS 1.25%
- Inadequate PTSPs capacity

Challenges Cont'd

Steps taken in addressing the challenges

Connectivity and network challenges:

- Discussion was entered into with NIGCOMSAT with the view to exploring other alternatives to the available GPRS technology being used for the deployment of POS's.
- A tripartite MoU has been drafted for NIGCOMSAT, CBN & NIBSS for the provision of Wi-Fi hotspots
- Proof of concept conducted in connectivity challenged areas of Lagos.
- DMBs deployment to focus on Wi-Fi & CDMA compliant devices

Inadequate Enlightenment:

- Strategy of engagement was focused on two modes;
 - Meeting target groups e.g. Executive Governors and their cabinets, MDAs of government, Banks and other financial institutions, Merchants, Hoteliers, Tertiary Institutions, Professional bodies and Religious groups/organizations.
 - Grass-root mobilization and sensitization at various markets.
 - Electronic / mass media sensitization to be rolled out

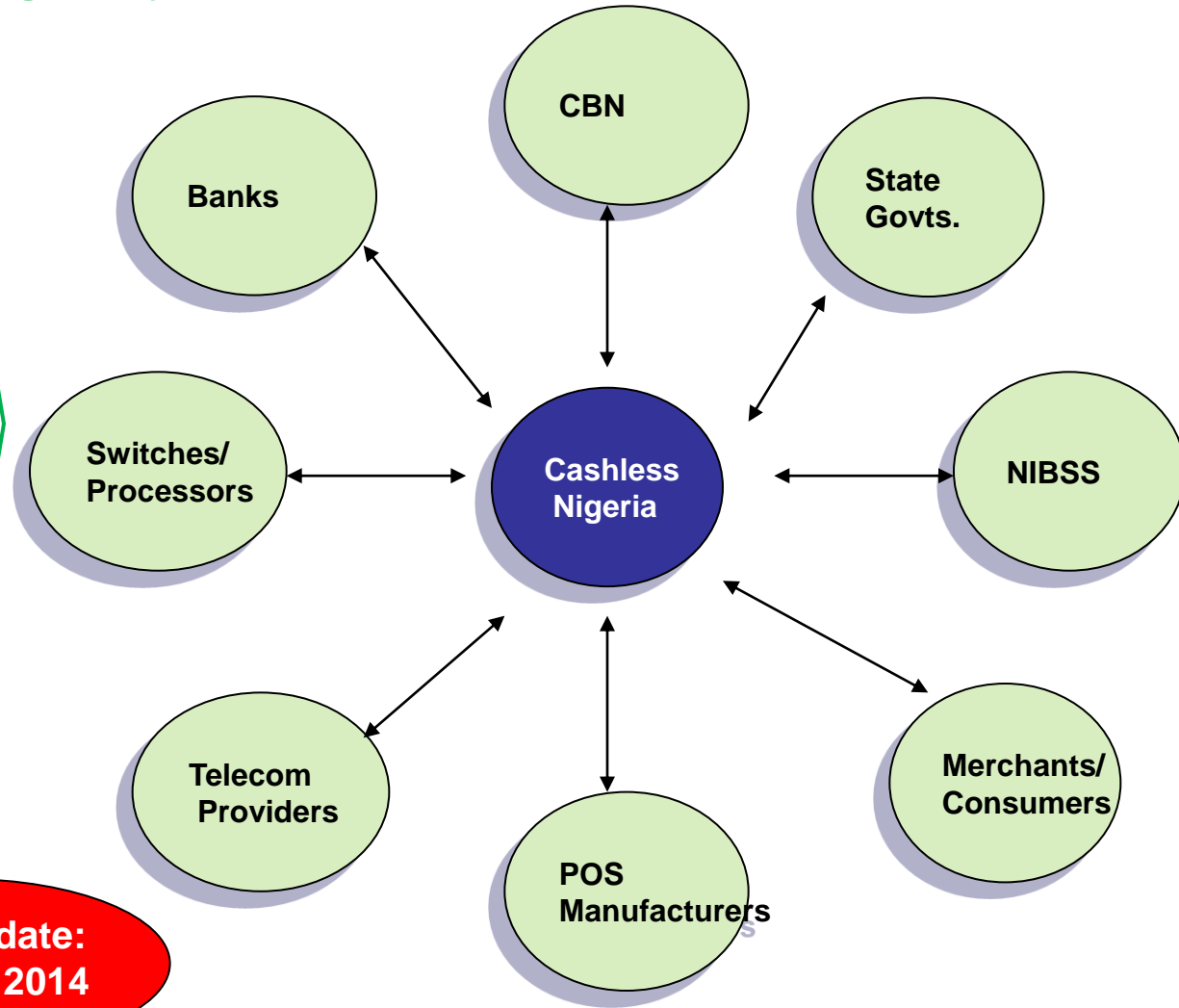


Key Stakeholders

Implementation of the policy across the nation will entail significant collaboration and amongst key stakeholders

GOALS:

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



**Go-live date:
July 1st 2014**



Conclusion

What we have observed is a slow but steady adoption fuelled by creative innovations by corporations. We hope to see more and more service offerings from Government, Corporations and even down to each individual, such that much desired culture shift away from cash would have been achieved.

It is hoped that Nigeria will find unique ways to transit from their present cash based operations to design, evolve, develop processes, applications, software, systems and any other activities that will drive adoption and ultimately create the critical mass needed for the policy to succeed.

There is need for collective effort in order to achieve this objective. All stakeholders are encouraged to ensure a success of the programme as CBN maintains an active engagement with all to ensure seamless transition to our desired cash-Less society.

Burden?



Convenience?

