

KEYNOTE ADDRESS

BY

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**DELIVERED AT THE INAUGURATION OF THE NATIONAL
PAYMENTS SYSTEM COMMITTEE (NPSC)
CENTRAL BANK OF NIGERIA HEAD OFFICE
ABUJA**

31ST MAY, 2005

KEYNOTE ADDRESS BY PROFESSOR CHARLES C. SOLUDO,
THE GOVERNOR, CENTRAL BANK OF NIGERIA, AT THE FORMAL
INAUGURATION OF THE NATIONAL PAYMENTS SYSTEM
COMMITTEE

Protocols,

1. It is my pleasure to welcome you all to the Central Bank of Nigeria for the formal inauguration of the National Payments System Committee (NPSC), which is being reconstituted to promote the development of the Nigerian Payments System. This event, therefore, marks a quantum leap in the quest for a robust and efficient payments system that will meet international standards.

2. The importance of the payments system in the management of a market economy cannot be over-emphasized. In particular, the link between the efficiency of the payments system and the effectiveness with which monetary policy is conducted, the soundness of the financial sector and, indeed, the overall performance of the economy is very strong. The globalization of financial markets and the shift towards market-based monetary management and exchange arrangements have further strengthened such linkages and the critical need for a careful design of the payments system. The major focus of payments system reform is to increase the diversity and liquidity of payments instruments. Thus, enhanced efficiency of the

payments system has been achieved in many modern market economies, driven by the users' changing needs, competition among service providers and changes in technology. Consequently, reform of the payments system has been a critical element of many programmes of financial sector reform. Moreover, harmonization of payments system arrangements is key to the process of the adoption of a single currency zone at the regional or sub-regional level.

3. Over the years, particularly in most recent times, we have made some progress in modernizing and enhancing the efficiency of the Nigerian Payments System. Nevertheless, the challenges facing us remain significant. It is of great concern that the Nigerian payments system remains largely cash-based, despite the efforts made to encourage the use of cheques. Although various factors have been adduced for this development, the obvious consequences are the inefficiency in the allocation of resources, low depth of financial intermediation and the constraints to the effectiveness of monetary policy.

4. In our continued effort to encourage the use of cheques and enhance the efficiency of the payments system, the Nigeria Automated Clearing System (NACS) has since gone live in Lagos. It

is expected that NACS would be deployed to the remaining Clearing Zones as soon as possible. This is aimed at further reducing the clearing cycle of cheques to two, from the current cycle of three and six days for local and up-country cheques, respectively. Indeed, there is no reason why a customer should not be able to take value for clearing cheques after one day, irrespective of the town where the cheque is lodged and the town where the paying bank is located.

5. Pursuant to our efforts to encourage electronic modes of payment and private sector initiatives, the guidelines on e-banking have been issued. The Bank is also establishing an RTGS system for large value payments, which is expected to go live before the end of the year, in addition to other on-going reforms of the payments system. It is important to note that the CBN is working closely with the West African Monetary Institute (WAMI) to evolve a robust payments system in the sub-region in order to promote economic activities within the zone.

6. We are, of course, aware of the contribution and commitment of an increasing number of banks in this endeavour. Some new products, including shared-ATMs, have been introduced. Payment cards are being offered and switching services system has been put in place. Some electronic modes of payment through inter-branch

funds transfers have also been introduced. We are also aware of the various efforts of the Nigerian Stock Exchange; Federal Inland Revenue Services (FIRS) and the Nigeria Customs Services (NCS) to increase the efficiency of their payments systems and overall operations.

7. Despite these efforts which are mostly at individual institutional levels, the desired results remain elusive as the level of co-operation among all the stakeholders in the payments system is unsatisfactory. Apart from the NACS that is limited to Lagos and, to some extent, Abuja, there is hardly any reliable, common and shared item of infrastructure to support electronic payments. The individual efforts have remained largely un-coordinated and services in most cases are inefficient, and costly to users.

8. Recognizing that the efficiency of the payments system is often assessed in terms of its risks, reliability and transaction costs, there is no doubt that the Nigerian Payments System requires fundamental reforms, particularly the need to migrate to electronic modes of payment. Overall, we need a mechanism that will be responsive to the needs of the users, minimize payment risks, establish secure, convenient and integrated systems that will meet the needs of the economy, facilitate fast exchange and settlement of

funds and securities and improve macro-economic management capabilities of the CBN.

9. Ladies and Gentlemen, the achievement of the above objectives requires infrastructural and institutional frameworks that will promote co-operation and coordination among the key stakeholders, that will foster timely improvements, and the adoption of industry standards and practices that meet international standards. Many countries have seen the usefulness of establishing some form of a National Payments Council, comprising of the central bank, commercial banks and other financial organizations that participate actively in the payments system, to play a coordinating role. Within such a coordinating body, ideas can be openly discussed; information on the demand for payment services obtained, and consensus reached on important technical and public policy issues.

10. Ladies and Gentlemen, you may recall that the authority of Heads of State and Government of the West African Monetary Zone (WAMZ) at its 3rd Mini-Summit held in Dakar, Senegal in December, 2001, passed a resolution requiring each Member State of the Zone to establish a National Payments System Committee. The objective was to assist the central bank of each member country to evolve

strategies for the development, implementation and operation of an efficient, domestic payments system, in line with international best practice. Consequently, the Nigerian Payments System Committee was established in 2002. The Committee has, however, remained ineffective largely because the organizational/institutional structures were weak and unresponsive.

11. Given the expected role of the National Payments System Committee in developing an efficient payments system, and recognizing the strong relationship between a well functioning payments system and effective monetary policy, financial sector stability and overall economic efficiency, the need to reconstitute the National Payments System Committee is compelling. The membership of the reconstituted National Payments System Committee (NPSC) is as follows:

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| (i) | The Governor, CBN | - | Chairman |
| (ii) | The Deputy Governor (Operations), CBN | - | Deputy |
| (iii) | The M/D & CEO, Zenith Int'l Bank | - | Member |
| (iv) | The M/D & CEO, United Bank for Africa Plc | - | Member |
| (v) | The M/D & CEO, NIBSS | - | Member |
| (vi) | The Director-General, NSE | - | Member |
| (vii) | The Accountant-General of the Federation | - | Member |

- | | | |
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| (viii) The Chairman, FIRS | - | Member |
| (ix) The Controller-General, NCS | - | Member |
| (x) The Representative of State Governors | - | Member |
| (xi) The Representative, National Security Adviser- | | Member |
| (xii) The Director, Banking Operations Dept., CBN | - | Member |

The Banking Operations Department of CBN will provide the Secretariat to the NPSC.

12. The mandate of the Committee is to determine the country's payments system strategy and act as a sounding board for the national payments system strategy team. Some of the specific tasks of the Committee include:

- ◆ Identification of strategies for enhancing the efficiency of the Nigerian payments system through consideration and approval of commissioned studies and memoranda and recommendations arising there from.
- ◆ Providing a forum for payments system participants and stakeholders to address emerging issues or concerns, and to co-operate in the provision of payments services and infrastructure.
- ◆ Promoting the institutionalization of payments system reforms and development through the articulation of a comprehensive

payments system legal framework and its development into a National Payments System Act through co-ordination with the National Assembly.

- ◆ Promoting a comprehensive database on payments system activities.
- ◆ Facilitating the codification of standards, guidelines, rules, and regulations for the safety and operational effectiveness and efficiency of the Nigerian Payments System.
- ◆ Promoting public confidence in emerging payments technologies through national workshops and seminars.
- ◆ Adopting a national payments system risk management strategy.
- ◆ Drawing up strategies for moving the domestic payments system towards more electronic modes of payment and continuous modernization of the existing payments products.
- ◆ Setting up and mandating a Technical Committee to proffer action plans and proposals for the development of various payments system components, such as:
 - a) Large-Value payments;
 - b) Retail Payments;
 - c) Securities settlement; and
 - d) Payments System Standards and Information Technology.

13. When set up, the Technical Committees, will perform the following tasks:

- ◆ Advise the National Payments System Committee on short, medium and long term strategies on payments system reforms and developments.
- ◆ Work collaboratively with the key payments system participants and stakeholders to identify barriers to innovation in the payments system, and
- ◆ Identify strategies for enhancing the long-term efficiency of the existing payments system, in particular, through migration to more electronic forms of payment.

14. The major role of the working groups will be to formulate the National Payments System vision and strategy. The groups will be multi-disciplinary to ensure that all key perspectives of the National Payments System are taken into account. The Director of Banking Operations Department will therefore ensure that the spread of skills in the groups include business, treasury, information technology, financial markets, legal, project management, operations and payments system experts.

15. Distinguished Ladies and Gentlemen, the challenges of the new payments system strategies are onerous but the benefits are significant, including:

- i) efficiency in the control of credit and systemic risks, leading to increased confidence in the security and reliability of payment instruments;
- ii) minimization of transaction costs;
- iii) availability of modern infrastructure to support domestic funds transfer;
- iv) traceable economic transfers (taxes, audit, public debt management);
- v) improved monetary management and promotion of economic activities;
- vi) robust liquidity management; and
- vii) healthy competitive banking services.

16. The National Payments System Committee will meet quarterly or as it may consider appropriate. As the Chairman of the Committee, I should point out that modernization of the payments system is one of my major top priorities, following closely on banking sector consolidation. I have no doubt in my mind that every member of the Committee is committed to the reform of the National Payments System in order to enthrone a modern, efficient and reliable payments system in which national interest will take priority over narrow competitive interests.

I thank you all for your attention.

Professor Charles C. Soludo
Governor
Central Bank of Nigeria
31st May 2005