PRESS STATEMENT BY THE DEPUTY GOVERNOR, OPERATIONS, MR. TUNDE LEMO

ON THE NEW CBN CASH COLLECTION POLICY

The Central Bank of Nigeria recently announced a set of policy directives aimed at addressing the currency management challenges in Nigeria, and enhancing the national payments system. The policy also further reinforces the electronic payments directive of the Federal Government of January 2009.

This press statement forms part of the CBN's program of engagement and enlightenment of the public, to further clarify the policy and allay any anxieties that may arise from misunderstanding or misinterpretation of the policy. The CBN seeks to ensure that the essence of the policy is properly understood and seen as beneficial to us as a nation that desires economic growth and development, particularly in view of our ambition to be amongst the top 20 economies of the world by the year 2020.

1. What informed the new policy?

In the wake of the 2009 reforms, data analysis of the commercial banks showed a high cost structure in the banking industry, of which a significant proportion is passed on to the customers in the form of high service charges and high lending rates. Also worthy of note is that a substantial part of the operational costs is the expenditure on cash management.
The Nigerian economy is too heavily cash-oriented in the transactions of goods and services. The huge volumes of cash transactions impose tremendous costs to the banking sector and, consequently, the customer, in terms of cash management, frequent printing of currency notes, currency sorting and cash movements.

This informed the preference by the banks to lend to the capital market and oil & gas industry rather than the real sector and small and medium scale enterprises (SMEs).

There is also the risks involved in keeping or moving large amounts of cash, namely the high incidences of robberies and burglaries and the public's propensity to abuse and mishandle currency notes.

In 2009, the direct cost of cash management to the banking industry was N114.5bn, and it is estimated to be as high as N192bn by 2012. This spiralling cash management cost, most of which is passed on the consumer in the form of bank charges and lending rates, is as a result of the cash dominant economy. For example, the value of Currency-In-Circulation (CIC) as at December, 2009 amounted to ₦1.184 trillion, an increase of 20.36% over the level at the end of 2008. As at 31st December, 2010 the total CIC value stood at ₦1.378 trillion, showing an increase of 16%.

Further analysis indicated that 90% of bank customer daily withdrawals are of amounts below N150,000 whereas only 10% of bank customers who withdraw over N150,000, are responsible for the heavy cost of cash management being borne by all bank customers.

The present levels of cost and inefficiencies in providing banking services and the poor quality of services experienced by the majority of the banking public will be addressed by the new cash withdrawal policy, in concert with other efficiency initiatives by the CBN in collaboration with the Bankers Committee. There is need to remove the burden of cost of managing cash from the low savers and improve services to them.

The progress made by the Federal Government in the electronic payments of salaries and contractors/suppliers, the growing acceptance among the citizens of innovations such as the ATM and mobile telephony and commitment by the banking community to improve the supporting infrastructure for seamless electronic payments were encouraging factors which propelled the new retail cash policy.

The New Cash Policy

The retail cash policy which commences from June 1, 2012 stipulates that over the counter cash transactions above N150,000 and N1,000,000 for individual and corporates respectively will attract a charge. Notwithstanding, the Policy recognises that Merchants have to continue to receive payments, therefore, it allows merchants and traders alike to choose either cash option for receiving payments or adopt cheaper and convenient alternative electronic payments channels to facilitate business transactions. The implementation of the policy will commence at first in Lagos, and gradually phased to cover Port Harcourt, Kano, Aba and F.C.T.

A careful review of the policy reveals the following salient considerations that went into the formulation of the policy as well as actions being taken to ensure seamless implementation:

1. The Central Bank of Nigeria, while acting within the limits of its statutory responsibilities in respect of the development of the payments system, did not place a limit on cash transactions in the banks rather the CBN is formally encouraging banks to shift cost burden of heavy cash management to customers conducting high volumes of cash transactions in the banking halls. Individuals and corporates who are desirous of such cash usage should be willing to pay for the cash services being offered by the banks. Since the majority of Nigerians (90%) do not carry out cash transactions of up to N150,000 a day on their respective accounts, the threshold for charging was set taking into consideration the need to protect the low income earners and savers.
2. It is should be clarified that the policy does NOT prohibit the withdrawal of more than N150,000. Those who still wish to conduct heavy cash transactions with their banks are free to do so within the provisions of the directive.
3. The banks are poised and committed to an aggressive roll-out of ATMs, Point-of-Sale (POS) and other electronic channels to ensure these are readily available to the high cash driven individuals and businesses. The CBN and Bankers Committee are implementing an e-payment rollout program that will deploy additional 40,000 POS and 10,000 ATMs before December 31, 2011 and 375,000 POS and 75,000 ATMs by December 2015. These are to be deployed with strict rules on high uptime and availability.

4. Currently, there are funds transfer products of banks that ensure same day value to customers anywhere in the country through the electronic funds transfer system.

5. The CBN aims to roll out this policy with a pilot starting with Lagos, to be implemented by January 1 2012. Following proof of concept, the roll-out will continue to the remaining indentified cash-dominant localities with effect from June 1, 2012.

6. To address the communication infrastructure issue which had hitherto affected the level of availability of POS and ATMs to users in the country, the CBN and the Bankers Committee have commenced concrete actions to ensure that priority is given to payments related data traffic by telecommunication networks. Agreement has been reached to provide dedicated channels for transactions over the Point of Sale (POS).

7. Power is another key infrastructure which impacts the availability of POS and ATMs. The CBN has therefore agreed on minimum POS standards which specify adequate battery life span to support uninterrupted availability of service of the terminals. In addition, the CBN will stipulate and enforce minimum uptime for ATM and POS. Providers of these services will be held to minimum availability standards.

8. The non-acceptance of some cards over the POS, owned by certain payments networks due to lack of interoperability, is equally being addressed. POS service providers and banks have been issued, through this policy, a clear directive to vacate any existing contract which is restrictive to card usage with effect from June 1, 2012. The CBN has commenced compliance checks.

9. Last year, the CBN issued approvals in principle to 16 mobile payment providers for which the pilot was recently concluded, as part of the efforts to provide effective and efficient alternatives to cash in the economy. The eventual licensees will be held to strict service quality and roll out targets. The arrangement for prioritising payments data traffic over the telecommunication network will also be extended to cover mobile payment providers.

10. Today, the cheque is available to make payments of up to N10million through the clearing system. Enforcement of the T+2 clearing cycle is being stepped up and efforts are ongoing to reduce the cycle to T+1. We are prepared to ensure discipline in the usage of cheques and we shall give necessary assistance to the EFCC in prosecuting issuers of dud cheques. Issuance of dud cheques is a financial crime.

11. The CBN has set up a Consumer Protection Office to address users' complaints especially in respect of these alternative banking and payment channels.

12. The CBN is mindful of the need for careful implementation. The policy becomes effective on June 1, 2012 (**not 2011**) **in selected areas of the country**. In fact, we have obtained the

understanding of the President and the Executive Governor of Lagos state to carry out a pilot commencing January 2012 to demonstrate the feasibility of the policy. We have a clear plan of action over the next six months to continue efforts to ensure that alternative payment modes are effective and efficient for conducting business transactions.

13. We are convinced that the low level of literacy is not a potent limitation to the adoption of innovation and technology in payments. Millions of the so called illiterates use mobile phones effectively and even send text messages. Nevertheless, the CBN is committed to a robust grassroots awareness and education campaign strategy to aid the understanding, adoption and usage of POS and ATMs.

14. The banking industry will also be adopting biometric authentication for POS and ATMs to address safety of customers' funds and avoid losses through compromise of PIN. This will improve the ease of transaction on electronic channels as customers will no longer have to worry about forgetting PIN numbers or disclosure of PIN to fraudulent assistants.

15. We need to be mindful that Nigeria cannot relent in ensuring that it maintains its accreditation by the international money laundering watchdog - the Financial Action Task Force. In this regard, it is essential to ensure that our payments system keeps trail of internal and external flow of funds within the economy.

16. Our sister countries in Africa are making progress in reducing the level of cash transactions in their economy. Nigeria currently has 13 POS/per 100,000 adults whereas Uganda has 453 POS/100,000 adults, South Africa is 1,063 POS/1000 adults and Brazil 2,247 POS/100,000. If Uganda could take the bold step to embrace more efficient payments options some years ago, it is very clear that Nigeria requires an aggressive POS and other electronic payment rollout to realise the vision of being one of the 20 biggest economies in 2020.

In conclusion, Nigerians can be assured that this programme is for their benefit and for the benefit of the country as whole. It will reduce cost of accessing financial services and quality of banking services while also helping to stem cash-related crimes such as burglary and arm robbery. Over the next 12 months, the CBN will carry out adequate public awareness and enlightenment as we engage all stakeholders in a two-way conversation to understand the concerns and explain how the new policy will address all those concerns and issues. We seek the cooperation of Nigerians on this initiative and we assure them that the economic/financial stability and the protection of funds of the banking public remain key priorities for the CBN.

Thank you

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