



CENTRAL BANK OF NIGERIA

QUESTIONS AND ANSWERS ON THE CBN POLICY ON CASH WITHDRAWAL/LODGEMENT LIMIT

Following the recent circular issued by the Central Bank of Nigeria, in collaboration with the Bankers' Committee, placing cash withdrawal limits of N150,000 for individual account holders and N1,000,000 for corporate account holders, with the aim of reducing the high dominance of cash in the Nigerian economy, we publish below some questions and answers that would further enlighten the public and other stakeholders on the essence of the policy.

1. What informed the new policy of Cash Withdrawal/Lodgement Limit?

- The Nigerian economy is too heavily cash-oriented in transactions of goods and services. This is not in line with the global trend, considering Nigeria's ambition to be amongst the top 20 economies of the world by the year 2020.
- Furthermore, it is estimated that about 65% of the cash in circulation in the Nigerian economy is outside of the banking system, thus severely limiting the impact of the CBN's efforts at price and economic stabilisation.
- Also, the huge volume 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.
- As the volume of cash in circulation (CIC) grows, so does the cost of cash management to the financial system which is estimated to reach N192billion in 2012.
- 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.

2. What does the CBN want to achieve with the policy?

- The CBN, in collaboration with the Bankers' Committee, aims to achieve an environment where a higher and increasing proportion of transactions are carried out through Cheques and Electronic Payments (e-payments), in line with the global trend.
- The CBN recognises the need to balance the objectives of meeting genuine currency transaction demands and combating speculative

market behaviours that may negatively affect economic growth and stabilisation measures.

- This new cash withdrawal policy will ensure that a larger proportion of currency in circulation is captured within the banking system, thereby enhancing the efficacy of monetary policy operations and economic stabilisation measures.

3. What is the global trend? Is Nigeria in line with other countries?

- Central Banks and other monetary authorities around the world have always strived to achieve a payment system that is tilted towards cheques and e-payment dominance, rather than cash-oriented.
- This helps in ensuring the effectiveness of stabilisation measures, keeps the currency in circulation clean and durable, and reduces the cost of cash management.
- Nigeria is a major economy in the world and certainly a leader on the African continent. In line with its vision 20:20, Nigeria should be at the forefront of economic modernisation.

4. How will placing a limit on cash withdrawal enhance the efficacy of monetary policy?

- Monetary policy operations will be enhanced in the sense that economic agents will resort to more use of Cheques and e-payments in carrying out daily transactions.
- This will result in a higher proportion of money in circulation being readily captured within the banking system.
- By implication, the CBN's stabilisation measures - either tightening or expansionary monetary policies to tackle inflation - will become more effective. For example, a change in interest rate will readily affect money supply because a larger volume of money supply is made up of currency in circulation which is mostly within the banking system.

5. What are the legal implications of the cash withdrawal limit policy?

- The policy does NOT in any way stop account holders from withdrawing any amount of money they desire from their accounts.
- The policy simply recognises that banking is a business and, as with any business, there are costs that are sometimes shared between the business and the customers.
- The policy stipulates that to withdraw more than N150,000 (for individual account holders) and more than N1,000,000 (for corporate

account holders), there will be a nominal transaction cost, as stated in the circular.

6. Does the policy foreclose the use of Cheques in transactions?

- The policy does not in any way preclude the use of Cheques as a means of payment. In fact, the policy rather encourages the use of Cheques as well as other e-payment methods in daily transactions.

7. How would the policy help to check high rate of organised crimes, such as armed robbery, kidnapping and money laundering?

- It is a well known fact that the criminal underworld usually requires huge volumes of cash to carry out their nefarious operations in order to avoid being traced or tracked.
- Therefore, placing a limit on the amount of cash flowing in the system, will curtail such activities as armed robbery, kidnapping, drug and gun running and money laundering.
- In an environment of extensive and predominant use of cheques and e-payments, criminal transactions can be easily traceable and tracked.

8. Will the policy have negative implications on small businesses that heavily rely on cash transactions?

- In every human endeavour, attitudinal change often comes with some challenges, but that does not mean change is impossible, especially if it is for the good of all.
- Small businesses, with proper education and preparation, will be sensitised to the benefits of operating current accounts and adopting less cash-oriented methods in their business transactions.
- Data from Nigerian banks show that only about 10% of cash withdrawals from banks are of more than N100,000. Therefore, this new policy only affects 10% of banking customers who also account for over 75% of all banking transactions, thus accounting for the lion share of the cost of cash management.

9. Will the policy lead to people resorting to the old habit of keeping money in their homes?

- Most Nigerians are aware of the dangers of keeping their money at home, given the incidences of armed robbery, burglary, fire, etc.

- With the advent of electronic payment methods, these risks can be curtailed.
- The CBN, in collaboration with the Banks, will continue to educate and sensitise the masses on the advantages/benefits of e-payments as a modern, secure and efficient means of transaction, whilst also putting the infrastructures in place to ensure that e-payment services are within reach and available.
- Many people will endeavour to use ATM cards, Internet banking, Mobile banking, Point of Sale (POS), Cheques and other non-cash-based transactions, rather than be left behind.

10. Is the 10% penalty for exceeding the withdrawal limit not too punitive? Will it not discourage the public and other stakeholders' support for the policy?

- 10% is a transaction cost, and not meant to be punitive. It is simply a motivational factor aimed at driving the business of banking towards more efficient and cost-effective operations.
- The objective is to enable Nigerians see the policy as serving the interests of all concerned. The huge amount of money spent on frequent printing of currency notes and managing physical cash could be deployed in solving other pressing needs of the public.

11. Will the policy lead to a win-win situation for the Regulator, the operators and the economic agents?

- There is no doubt that the policy will lead to a win-win situation. It will also enhance effectiveness of monetary policy measures to curb inflation and stabilise the economy, it is in the interest of all, leading to economic growth and development that ultimately create jobs and improve economic wellbeing.

12. How will the policy achieve the desired goal, given the huge gaps in infrastructure, especially electric power which is critical for efficient e-payment operation?

- The gaps in infrastructure are a huge challenge to economic growth and modernisation in Nigeria. To this end, there are various efforts and initiatives currently in progress to address these gaps, particularly in power supply.
- Banks are also collaborating to participate in the CBN initiative of Shared Services, in order to share and lower infrastructure costs, which

will go a long way to enhance infrastructure facilities and services in the banks.

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13. Is it possible for banks to lose business or see reduced patronage from the public as a result of this new policy?

- Banks will not lose customers since their infrastructure would have been improved before the commencement of the policy. The CBN, in collaboration with the Banks, will embark on a familiarisation program to educate the public on how the policy will be implemented, and the benefits of the policy to them as banking customers.

14. What is the modality of implementing this policy?

- The CBN working with the banks will start the implementation of the policy in phases. There will be pilot schemes in Lagos, Port Harcourt, Abuja, Kano and Aba, which will eventually cover the entire country in few years to come.
- The pilot scheme will start with Lagos (code named **Cashless Lagos**), in which the CBN, the banks, relevant service providers and the Lagos State Government are working together to provide all the necessary infrastructure for the smooth takeoff of the scheme in Lagos State effective December 31, 2011.
- Towards achieving this, several committees consisting of all the major stakeholders are assiduously working to ensure that **Cashless Lagos** is achieved as planned.

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