Financial System Strategy 2020

FSS 2020 International Conference

Payment Systems Strategy
Presentation Outline

- Payment Systems Sector Overview
- Current Position Assessment
  - Industry Structure (Players, Regulators, Products etc)
  - Industry Issues, Gaps & Key Success Factors
- Industry Vision and Mission
- Proposed Industry Model
- Strategic Objectives & Initiatives
  - Payment System Usage Initiatives
  - Payment Infrastructure Recommendations
- Implementation Plan & Timelines
SECTOR OVERVIEW
Payment Systems Sector Overview

Scope:
- Payment Systems Infrastructure
- Regulatory Framework
- Usage and Adoption

Users
- Individuals, Business, Government

Payment Service Providers
- Channels and Product
- Transaction Processing
- Payment Methods

Payment Infrastructure
- CBN

Regulator
NIGERIA:
Current Position Assessment
Industry Structure

Users
- Individuals, Business, Government

Payment Service Providers
- Channels and Product
- Transaction Processing

Payment Infrastructure
- Payment Methods

Regulator
- CBN

- ATM and POS
- Electronic Banking
- Teller Services
- Mobile payments

- 25 deposit money banks
- Card Scheme operators
- NIBSS
- CSCS

- Cash
- Cheques
- Cards
- ACH
- RTGS
Track  Record and Future Challenges

- **Successes to date**
  - Re-capitalisation of banks to introduce stability and consumer confidence
  - Introduction of RTGS compliant payment systems for financial settlements
  - Introduction of automated NACS Clearing
  - Introduction of Central Switch for card transactions
  - Formalised CBN Rules and Regulations for Payment Systems

- **Key challenges**
  - Continued focus on infrastructure initiatives
  - Deployment and Acceptance of electronic payment methods
  - Legal recognition of electronic payment methods

- **Achieving the ‘Quantum Leapfrog’**
### Industry Issues

<table>
<thead>
<tr>
<th></th>
<th>Top 20 Economy</th>
<th>Current Nigeria</th>
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<tbody>
<tr>
<td></td>
<td>Annual # txns per person</td>
<td>Growth</td>
</tr>
<tr>
<td>Cash</td>
<td>450</td>
<td>-2%</td>
</tr>
<tr>
<td>Cheque</td>
<td>40</td>
<td>-7%</td>
</tr>
<tr>
<td>Card – Purchase</td>
<td>120</td>
<td>+10%</td>
</tr>
<tr>
<td>Card – Cash Withdraw</td>
<td>50</td>
<td>+7%</td>
</tr>
<tr>
<td>Electronic</td>
<td>110</td>
<td>+8%</td>
</tr>
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</table>
SECTOR VISION AND MISSION
Nationally Utilised

Internationally Recognised
Mission

To facilitate economic activities by providing safe and efficient mechanisms for making and receiving payments with minimum risks to the central bank, payment service providers and end users extending the availability and usage to all sectors and geographies, banked and unbanked and conforming to internationally accepted regulatory, technical and operational standards.
By the year 2020, our children laugh at us when we try and pay by cash
Our Approach

- **Start with End User (Individual, Business, Government)**
  - Needs and Objectives
  - Payments Services required
  - Actions required to deliver
  - Identified seven key Initiatives

- **Benchmark payments infrastructure**
  - Based on BIS Ten Core Principles for Strategically Important Payment Systems
  - Identified gaps and issues
  - Agreed the critical items for resolution
  - Identified 15 key Recommendations

- **Be realistic in our objectives**
  - Phase 1 – through to 2012, based on technology and infrastructure in place in other countries/regions with focus on deployment
  - Phase 2 – through to 2020, responding to new and emerging technologies with focus on innovation
Our Guiding Principles

- Built to serve the End User via the Payment Service Providers
- Facilitating nationally accepted payment methods
- Encouraging innovation and deployment by service providers
- Using common core infrastructure
- Recognising local geographic, market and cultural practices
- Conforming to internationally accepted risk principles
- Within a clear and transparent legal and regulatory framework
- With Specific, Measurable, Attainable, Relevant and Time-bound goals
Business Model – Co-operate & Compete

- **Users**: Individuals, Business, Government
- **Payment Service Providers**: Channels and Product
- **Payment Infrastructure**: Transaction Processing
- **Regulator**: Payment Methods
- **CBN**: Co-operations
- **Encourages variety and innovation**
- **Competition**
- **Enforces Standardisation and Regulation**
National Usage – International Recognition

Seven End User INITIATIVES that will drive national usage

Fifteen infrastructure RECOMMENDATIONS to improve resilience creating increased international recognition
PAYMENT SYSTEM USAGE INITIATIVES
Phase 1 - Seven User Initiatives

- Securities Settlement
- Government Supplier Payments
- Business Taxes
- Person to Person Trade
- Salary Payments
- Bill Payment
- Individual Taxes
Initiative 1 – Government Payments

- By end 2009, all Federal and State Government Supplier Payments will be made electronically and directly into bank accounts held by the supplier.
- This will be extended to cover local government departments by end 2010.
- The Central Bank of Nigeria should lead by example, and be paying all suppliers electronically by end 2008.
Initiative 2 – Person-to-Person Payments

- By end 2007 a business plan should be created to evaluate a robust and easy-to-use method for secure person-to-person electronic payments without the need for extensive infrastructure. It is expected that mobile phones will be the primary channel for access.

- The solution has to be as effective and accepted as cash and offer fast circulation of money since it will be used for selling and subsequent stock replenishment within the same day.

- The business proposition will cover all aspects such as technical feasibility, security and controls, regulatory environment, user acceptance and pricing.
Initiative 3 – Salary Payments

- By end 2009, all businesses with more than 50 employees will be required to make salary payments via direct deposit into a bank account unless specifically exempt.

- This initiative will be fully integrated with the pension deduction reforms and the collection of tax deducted at source from payroll.
Initiative 4 – Consumer Bill Payment

- During 2007, the banking community and billers (including utilities and insurance companies) will work together to develop and implement a public awareness campaign that educates their customers on the benefits of ACH Debits for bill payment, outlining the consumer protection and safeguards that are in place.

- In preparation for the campaign, the current controls and processes (including the debit mandate process) will be reviewed and formal rules around consumer protection will be put in place. Banks and billers will sign-up to an industry wide code of conduct.
Initiative 5 – Taxes (Business)

- By end 2009 (for Federal and State Government) and by 2011 (for Local Government), all business taxes will be paid electronically.
- FIRS and Customs will enable on-line verification of the amount to be paid, and the status of tax payments made and/or due.
- The on-line service will support various methods of electronic payment that can be selected, and will provide a unique reference number that can be passed with the payment. Confirmation of receipt of tax will be sent back to the payer if requested.
Initiative 6 – Taxes (Individual)

- By end 2008 (for Federal and State Government) and by end 2009 (for State Government) electronic payment of taxes (covering the tax deducted at source, tax determined by self assessment and levies) will be supported.

- Payments will be made directly into accounts owned by the relevant tax authority, not the accounts of agents.

- The tax authorities will provide payment reference information to the tax payer that must be quoted when making the payment in order to identify the tax being paid.

- By end 2008, all tax agents must pay electronically to the tax authorities.
Initiative 7 – Securities Settlement

- By end 2008, settlement of all market-side securities trades (exchange based and OTC) will use the RTGS payments system (CIFTS) to ensure intra-day finality.
- For exchange traded securities, the net positions of the nominated CSCS Settlement Agents will be generated by CSCS and directly submitted to CIFTS.
- By end 2008 all dividend and coupon payments should be able to be paid electronically (typically via ACH Credit or RTGS) into the beneficiaries account.
- By end 2011 all dividend and coupon payments will be electronic.
- By end 2008, all proceeds from the sale of securities must be paid electronically via ACH Credit or RTGS into the beneficiaries account,
Payment Infrastructure Recommendations
Review of Payment System Components

- **Our approach**
  - Agree the payment methods required
  - Assess the current infrastructure and avoid overlap
  - Agree the criticality of each component
  - Benchmark against the BIS Core Principles for Systemically Important Payment Systems
  - Recommend specific actions to resolve important issues
Payment Systems

Users
Retail, CBN, Government, Securities, Wholesale, Foreign Entities

Commercial Financial Service Providers
Banking Products – Access Channels
Bank Processing – Transaction Processing/Bookkeeping

Infrastructure Providers
Market Infrastructure
RTGS, ACH, Cheques, Mobile, Cards, X-border, WAMZ, Other
# Criticality of System Components

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>Infrastructure</th>
<th>Current criticality</th>
<th>Future criticality</th>
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<tbody>
<tr>
<td>RTGS</td>
<td>CIFTS</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>ACH credit and debits</td>
<td>NEFTS</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Cheques</td>
<td>NACS + manual clearing</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Debit, ATM and Credit Cards</td>
<td>Various National &amp; International schemes</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Interswitch/Central Switch</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stored Value Cards</td>
<td>Commercial schemes</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Pre-paid cards</td>
<td>Commercial schemes</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Mobile</td>
<td>None available</td>
<td>n/a</td>
<td>5</td>
</tr>
<tr>
<td>Cross-border – WAMZ</td>
<td>Not yet available</td>
<td>n/a</td>
<td>10</td>
</tr>
<tr>
<td>Cross-border – Other</td>
<td>Commercial correspondent banking.</td>
<td>5</td>
<td>7</td>
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Infrastructure Recommendations

- Adopt BIS Core Principles
- Fine tune Governance model
- Clarify Legal Framework
- Enhance Infrastructure
- Improve Consumer Protection
- Reduce Settlement Risk
- Expand Payment Methods

International Recognition
Clarify Legal Framework

- Amending the Central Bank of Nigeria Act 1999 or other laws to clarify the finality of settlement:
  - Exempting transactions in approved RTGS systems from a possible 'zero hour' ruling
  - Ensuring that approved multilateral netting arrangements cannot be set aside

- Amending the Central Bank of Nigeria Act 1999 or other laws to recognise appropriately authorised electronic instructions and statements as admissible evidence.
Improve Consumer Protection

- **Establish a Consumer Credit Bureau**
  - Supports a number of initiatives and facilitates the introduction of credit based services (credit cards, pre-paid services, ACH debit programs)

- **Define Code of Conduct for ACH Credit and Debits**
  - Develop Banking Code of Conduct that stipulates the consumer protection rights and value-dating practice for ACH Credits and Debits. Incorporate adherence to the Code of Conduct into the Rules and Regulations for participants.
  - Introduce a public awareness campaign that describes the benefits of ACH Debits and Credits, and the agreed Consumer Protection measures (ref: Initiative 4 - Bill Payments for Consumers)

- **Monitor credit control processes of banks for ACH Debits**
  - Confirm that bank internal controls for ACH processing is sufficient (covering credit checks, overall limits and individual mandate validations)
Settlement Finality and Settlement Risk

- **CBN will:**
  - continue to closely monitor bank solvency and credit procedures
  - ensures the level of collateral is reasonable based on flows of each participant
  - adopt clear procedures for handling the exceptional situation where a bank debit balance exceeds collateral and CBN recognises the participant will be unable to pay in 48 hours.
  - formally accepts the position of lender of last resort for net settlement systems

- **Recognise that an unwind process is NOT part of the operational process for any electronic payment system**

- **Reduce potential exposures through initiatives such as faster settlement cycles and individual payment limits.**

- **Clarify the legal position of payments through an insolvent bank**
Reduce Settlement Risk - Cheques

- Harmonise the Settlement Cycle for local and up-country cheques, and investigate moving to end of day settlement for all cheques
  - Reduces settlement for up-country cheques from T+4 to T+1, reducing the level of outstanding settlement obligations of participants
  - Moving to end of day settlement will further reduce the settlement obligations

- Impose maximum value limits on cheques
  - Reduces the total value of cheques being handled by the clearing
  - Encourages usage of electronic payment methods
Expand Payment Methods

- **Mobile Payments (refer to Initiative 2)**
  - Define a robust Mobile Payments infrastructure and benchmark against the Core Principles. The Central Bank must agree that any gaps are acceptable based on the level of flows and the potential impact on the overall financial stability.

- **ACH Credits and Debits**
  - Encourage banks to offer secure but simplified methods for their customers to initiate electronic payments so that overall usage is increased.
  - Encourage banks to automate the processing of the electronic files received from NACS.
Enhance Infrastructure

- **CIFTS**
  - Implement the option of an automated interface between the banks’ internal systems and CIFTS to encourage usage for third-party payments

- **WAMZ**
  - Ensure that developments in CIFTS and plans for WAMZ are synchronised
Fine Tune Governance model

- Rules and Regulation
  - Clarify the specific criteria for membership of a scheme
  - Clarify the regulatory framework for schemes such as stored value cards (open schemes and closed schemes) and pre-paid schemes
  - Clarify the responsibilities of participants in card schemes

- National Payment Systems Committee
  - Align the working groups under the National Payment Systems Committee with the infrastructure
  - Create Special Interest Groups to drive specific activities as required – disband the group when the action is complete
Proposed Oversight Structure

National Payment Systems Committee

Payment Infrastructure Committee
  - RTGS Working Group
  - Cheque and ACH Payments Working Group
  - Cards Working Group
  - Mobile Payments Working Group
  - Securities Working Group

Payment Strategy Committee
  - WAMZ Special Interest Group
  - Strategic Initiatives Special Interest Group
  - Public Awareness Special Interest Group
  - Legal Special Interest Group
  - Information Security Special Interest Group
IMPLEMENTATION PLAN AND TIMELINES
Timeline for Initiatives

- Government Supplier Payments
- Person to Person Trade
- Salary Payments
- Bill Payment
- Taxes (Business)
- Taxes (Individual)
- Securities Settlement

KEY
- Initial use
- Full volume
Phase 2 – 2012 through to 2020

Approach

- Recognise that infrastructure that has not currently been developed and trialled in any country is unlikely to reach full commercialisation in Nigeria by 2012.

- To set up a formal market scan, commencing 2007, to report to the Payment System Council on the latest market trends and infrastructure that may be relevant for the Nigerian market.

- The Payment System Council will instigate new initiatives at the appropriate time, based on:
  - Market needs and demands
  - Business case for implementation
  - Robustness of the new potential infrastructure
  - Potential impact on other current initiatives
The publication of the Payment Systems Vision 2020 is a key first step to creating a Payment Systems infrastructure that is Nationally Utilised and Internationally Recognised.

Execution against the seven Initiatives and twenty-five Recommendations will deliver the vision.

Seven End User INITIATIVES that will drive national usage.

Twenty-five infrastructure RECOMMENDATIONS to improve resilience creating increased international recognition.