



CENTRAL BANK OF NIGERIA

Further Clarifications on Cash-Less Lagos Project

The Central Bank of Nigeria (CBN) has introduced a new policy on cash-based transactions which stipulates a 'cash handling charge' on daily cash withdrawals or cash deposits that exceed N150,000 for Individuals and N1,000,000 for Corporate bodies. The new policy on cash-based transactions (withdrawals & deposits) in banks, aims at reducing (**NOT ELIMINATING**) the amount of physical cash (coins and notes) circulating in the economy, and encouraging more electronic-based transactions (payments for goods, services, transfers, etc.).

Why the Cash Policy?

The new cash policy was introduced for a number of key reasons, including:

1. To drive development and modernization of our payment system in line with Nigeria's vision 2020 goal of being amongst the top 20 economies by the year 2020. An efficient and modern payment system is positively correlated with economic development, and is a key enabler for economic growth.
2. To reduce the cost of banking services (including cost of credit) and drive financial inclusion by providing more efficient transaction options and greater reach.
3. To improve the effectiveness of monetary policy in managing inflation and driving economic growth.

In addition, the cash policy aims to curb some of the negative consequences associated with the high usage of physical cash in the economy, including:

- **High cost of cash:** There is a high cost of cash along the value chain - from the CBN & the banks, to corporations and traders; everyone bears the high costs associated with volume cash handling.
- **High risk of using cash:** Cash encourages robberies and other cash-related crimes. It also can lead to financial loss in the case of fire and flooding incidents.
- **High subsidy:** CBN analysis showed that only 10percent of daily banking transactions are above ₦150,000, but the 10 per cent account for majority of the high value transactions. This suggests that the entire banking population subsidizes the costs that the tiny minority 10 per cent incur in terms of high cash usage.
- **Informal Economy:** High cash usage results in a lot of money outside the formal economy, thus limiting the effectiveness of monetary policy in managing inflation and encouraging economic growth.
- **Inefficiency & Corruption:** High cash usage enables corruption, leakages and money laundering, amongst other cash-related fraudulent activities.

Content of the Cash policy

The following aspects of the policy shall apply from January 1st 2012 in Lagos State ("tagged Cash-less Lagos"):

- o Only CIT licensed companies shall be allowed to provide cash pick-up services. Banks will cease cash in transit lodgment services rendered to merchant-customers in Lagos State from December 31st 2011. **Any Bank that continues to offer cash in transit lodgment services to merchants shall be sanctioned.**
- o 3rd party cheques above N150, 000 shall not be eligible for encashment over the counter. Value for such cheques shall be received through the clearing house.

The service charges/fees will not apply until March 30th, 2012, in order to give people time to migrate to electronic channels and experience the infrastructure that has been put in place. Therefore, banks should continue to encourage their customers to migrate to available electronic channels, and where possible demonstrate the costs that will accrue to those that continue to transact high volumes of cash from **March 30th, 2012** in Lagos State.

In addition, below are some detailed context and pertinent clarifications on the policy:

- **Location**
 - o The pilot shall be run in Lagos State.
- **Account Application**
 - o The cash-policy applies to all accounts, including COLLECTION accounts. Banks should therefore work with their corporate customers to arrange for suitable e-collection options.
- **Limits**
 - o The limits are cumulative daily limits each for withdrawal, and for deposits (e.g. for Individuals, the daily free withdrawal limit is ₦150,000; while the daily free deposit limit is ₦150,000)
 - o The limits apply to the account so far as it involves cash, irrespective of channel (e.g. over the counter, ATM, 3rd party cheques encashed over the counter, etc) in which cash is withdrawn or deposited (e.g. if an individual withdraws ₦50,000 over the counter, and ₦150,000 from the ATM on the same day, the total amount withdrawn by the customer is ₦200,000, and the service charge will apply on ₦50,000 - the amount above the daily free limit). The limit also applies to cash brought through CIT companies, as the CIT company only serves as a means of transportation.
- **Charges**
 - o The charges shall apply from March 30th 2012 in Lagos.
 - o The service charge for daily cumulative deposits above the limit into an account shall be borne by the account holder. However, during the pilot in Lagos, individuals paying money from Lagos, into an account outside Lagos, shall bear the charges for any single transaction above the daily limit.
 - o The service charge for daily withdrawals above the limit into an account shall be borne by the account holder.
- **Interstate Transactions**
 - o Charges/fees shall apply for all transactions in Lagos, and on Lagos State based accounts.
 - o Transactions initiated out of Lagos State, and affecting a Lagos based account shall not attract charges/fees, and shall not be counted as part of the daily

cumulative amount on that account since the policy has not been activated outside Lagos. (E.g. A deposit above the limit made from Onitsha into a Lagos state account shall not attract charges/fees).

- o Transactions initiated from Lagos State, and affecting an account outside Lagos, shall attract charges/fees (when the specific transaction is above the limit), since the policy has been activated in Lagos. (E.g. A deposit made from Lagos State above the limit, into an account in Abuja, shall result in the initiator paying the relevant charges/fees, while the account into which it is paid outside Lagos shall not be impacted).

The policy will eventually be rolled out to other regions across the country from June 1st 2012. Please note that the policy does not prohibit withdrawals or deposits above the stipulated amounts, but that such transactions will be subject to cash handling charge.

Expected Benefits of the New Cash Policy

A variety of benefits are expected to be derived by various stakeholders from an increased utilization of e-payment systems. These include:

- **For Consumers:** Increased convenience; more service options; reduced risk of cash-related crimes; cheaper access to (out-of-branch) banking services and access to credit.
- **For Corporations:** Faster access to capital; reduced revenue leakage; and reduced cash handling costs.
- **For Government:** Increased tax collections; greater financial inclusion; increased economic development.

Current Awareness/Engagement Status

The CBN has been running a set of targeted stakeholder engagement sessions as a first stage of its planned communication campaign. These have 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. The stakeholders so far have included markets, associations, professional bodies, etc. These stakeholder sessions were concluded in November 2011. We are now implementing the phase 2 of the communication strategy, which is the Mass communication campaign, leveraging the inputs derived during the stakeholder sessions.