



Cashless Society and ePayment Systems: Growth and Sustainability

Presented by

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Introduction



After the Banking consolidation in 2005, and with the reduction of banks, aggregate industry cost increased year-on-year and despite tactical cost saving interventions, it was observed that the high cost was not sustainable for the financial industry.

Consequently, a collaborative strategic response by the Financial Services Industry to realize 30% reduction on annual cost by 2015 was conceived in 2010, where the CBN, in conjunction with the Bankers' Committee initiated an industry Shared Services Programme to identify cost drivers in the industry and the opportunities for collaboration with the possibility of achieving 30% cost reduction with the attendant positive impact on lending rates and

Shared Services Opportunities



The Cash-Less Project was specifically developed to achieve the following objectives by sharing services to reduce costs:

- Reduce Industry cost-to-serve by 30%
- Increase access, convenience and service levels across the Industry
- Enable greater financial inclusion and integration of financial services into the economy, with its attendant positive impact on economic development

Implementation Status



INITIATIVE	STATUS
Cash Management	<ul style="list-style-type: none">• 5 CIT vendors licensed (with 1 providing cash processing services, 4 doing CIT services only)• Integrated Cash Management model developed• Definition of requirements for an integrated cash mgt solution to connect all players on an online real time basis• Development of the governance/organizational framework
Payment Systems Transformation	<ul style="list-style-type: none">• NIBSS transformation:<ul style="list-style-type: none">➤ Nigerian Electronic Funds Transfer (NEFT)➤ NIBSS Instant payment (NIP)➤ T+1 Merchant settlement➤ National Central Switch (NCS) for interoperability and interconnectivity➤ Working with banks to ensure more efficiency in the payment system

Cashless Policy



Cashless economy is a utopian concept. No true cashless economy exist in the world today. Though there are no deliberate policies that focus on this around the world, however, the semblance of the concept can be seen in several countries;

Denmark, Norway, Sweden; In most Scandinavian cities, public buses don't accept cash; tickets are prepaid or purchased with a cell phone text message. A small but growing number of businesses only take cards, and some bank offices have stopped handling cash altogether. In Sweden there are towns and organizations that only accept electronic payments.

Cashless Policy



UK, USA, France, Switzerland, Philippines & Italy; Notes and coins account for less than 1/6 of total money in circulation.

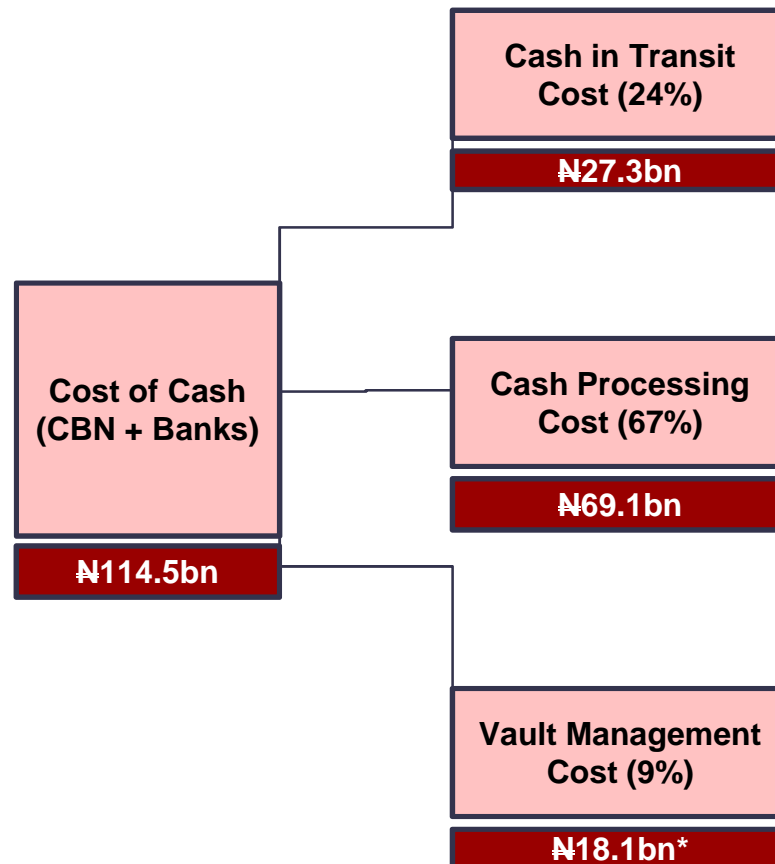
Uganda, Zambia & Kenya; World acclaimed for their financial inclusive adoption of mobile money banking.

Nigeria has been lagging behind in the adoption of e-payments and this is a major dis-advantage in many respects.

Why Cashless Policy



Cost of cash to Nigeria's financial system was high and increasing – direct cost of cash was estimated to reach N192bn in 2012, with cash transactions representing over 99% of customer activity in banks prior to the project



Source: A compilation of actual data from the CBN and 17 banks in the FSI (data extrapolated for 24 Banks).
*Does not include bank cash infrastructure costs and employee costs attributable to cash logistics

Reviewed Cashless Policy



The reviewed CBN Cash Policy stipulates that;

A 'processing fee' on daily cash withdrawals that exceed N500,000 for Individuals and N3,000,000 for Corporate bodies was instituted.

	Daily Limit	Withdrawal Charges
Individual	N500,000	3% on excess
Corporate	N3,000,000	5% on excess

3rd Party Cheques above N150,000 is disallowed from being cashed over the counter nationwide. They must be paid into an account.

Banks have been mandated to discontinue cash in transit lodgment services. Cash in Transit firms have been licensed to provide the services.

Alternative Channels to Cash



Industry stakeholders are jointly working together to increase alternative channels penetration, functionality, and ease-of-use.

- Point-Of-Sale Terminals: Card Neutral (Interoperability); Improved Connectivity; Greater reach/deployment, T+1 settlement
- Mobile Payments: 21 fully licensed mobile money operators.
- Multi-functional ATMs: Withdrawal, Cash-deposit, Bill payments, Funds Transfer are available and are being actively spread nationwide.

Alternative Channels to Cash



- Internet Banking: Intra and Inter Bank funds transfer are very widely available and are very reliable and convenient for use.
- Electronic Funds Transfer: NIBSS has on offer the NIBSS Instant Payment (NIP) product and the NIBSS Electronic Funds Transfer (NEFT). These products have revolutionized funds transfer in the banking industry with quicker value for inter-bank transfers.
- Direct Debits: Automated Direct Debit option available in Banks and some Billers

Challenges



The envisaged attitudinal changes expected from the public removes people from their comfort zone. This discomfort and the lack of clarity/understanding had hampered adoption and fueled conspiracy theories amongst our stockholding.

- Lack of understanding of cash policy amongst the banked & unbanked
- Resistance due to prevailing cash culture
- Technophobia (Literacy vs Numeracy)
- Infrastructure Lag
- Distrust in banking system
- Lack of clarity in communicating content of policy
- Merchant apathy

Countering the Challenges



Being faced with these challenges and understanding the importance of the issues that gave rise to them, we tackled them headlong with the following measures:

- Conducted mass sensitization and engagement with opinion leaders, market associations, religious bodies and leveraging on traditional and social media channels to reach out to the public on the intent and benefits of the policy.
- Emphasis on the mobile channel as a veritable tool for transiting to a cashless society in addition to the PoS and multi-functional ATMs. As mobile phone usage cuts across the literate and illiterate divides of our society and provides opportunity for millions to leap frog unto the electronic payment platform.
- Increased PoS deployment drive by banks

Countering the Challenges



Low capacity of the PTSP's:

Under Phase I, we had 6 licensed PTSPs to cater for the deployment and maintenance of PoS terminals. This was observed to be inadequate.

Upon this observation some added and we now have about 14 PTSPs that have been licensed. The increase in registered terminals have always indicated merchant willingness to adopt.

With the licensing of additional PTSP's gaps earlier witnessed in registered and actual deployments have been bridged as the PTSP's have more capacity to deploy more terminals.

The Enablers for the Cashless Project



- POS Performance: Since the policy took effect, the POS deployment has been on the increase:

The cumulative number of POS deployed /connected to NIBSS CTMS stood at 95,670 as at end of March, 2015.

- Mobile Money as a major focus for Financial Inclusion

The mobile phone is the most ubiquitous and cheapest electronic channel today.

In Nigeria, there are over 100 million mobile phones available to serve customers while there are less than 6,000 bank branches, 10,000 ATMs, and 200,000 POS terminals and less than 20 million bank accounts.

The Enablers for the Cashless Project



- Card safety: As a prelude to the policy, Nigeria had achieved changeover from magnetic stripe based payment tokens and channels to CHIP +PIN compliant channel and tokens, thereby recording a drastic drop in card related fraud incidences.
- Awareness: Independent evaluations that sought to measure the impact of the Cash Policy in Nigeria show that there is considerable increase in the awareness of the cash policy, with a moderate shift to e-payment usage by consumers.
- T+1 Settlement: Credit/ Settlement Risk has been reduced by shorter clearing cycle

The Enablers for the Cashless Project



- Creation Of The Payment System Policy and Oversight Office in CBN: which is saddled with the effective monitoring and regulation of the payments system.
- Facilitating Consumer Protection and Dispute Resolution: This is handled by the Consumer and Financial Policy Department of the CBN.
- Fraud Prevention and Management: The Nigeria electronic Fraud Forum (NeFF) made up of the CBN, Banks and other industry stakeholders was set-up in December, 2011 to implement measures that will effectively anticipate fraud, share information and resolve fraud related matters.

The Enablers for the Cashless Project



- New measures the industry has committed to enforce include;
 - Industry wide PCI DSS compliance and re-certification
 - Encryption and tokenization of electronic transactions Enforcing investment in intelligent Authorization & Fraud detection software
 - Development of dynamic Authentication for Card Not Present Transactions
 - Enhancing security on 3rd party applications
 - Consumer education on security of electronic channels

The Enablers for the Cashless Project



- Agent Network Management: Financial Institutions have started using third parties as agent centers in order to leverage on existing assets. This further drive down cost of taking payments and financial services to rural Nigerians.
- Tiered KYC: To enhance Financial Inclusion by reducing restrictions to account opening processes and improve quality of KYC information
- Bank Verification Number (BVN): Unique Identifier for Bank customers
- Electronic Payment Incentive Scheme: Various incentive programmes have been worked out for customers, merchants and sales agents to encourage the use of electronic payments

CONCLUSION



In its catalyst role, the CBN has initiated the Cashless programme as a economic driver that would improve the efficiency of the payments system, create new businesses and enhance existing ones and financially include those that are outside the financial system

We are optimistic that despite some of the challenges highlighted With commitment and determination, we shall collectively reach our goal and Nigeria's payments space will become one that will not only be more advanced but it will one that will become a reference point.

