The Central Bank of Nigeria's Cashless Policy in Nigeria: Benefits and Challenges.

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Abstract

The paper examines the cashless policy of the Central Bank of Nigeria (CBN) introduced in 2011, and on April 1, 2012 it commenced operation in Lagos as a pilot project. The policy aims at shifting the Nigerian economy from a cash-based economy to a cashless one, with a view to among others, achieving the requirements of Nigeria's vision 20:20 20 development agenda; reducing the cost of banking services; and improving the effectiveness of monetary policy in managing inflation and driving economic growth. Given the policy's objectives, the paper x-rays the associated benefits of the policy as well as the attendant challenges that may encumber the successful achievement of the policy's objectives. The paper therefore makes some suggestions that will make the policy succeed. They include: periodic review of the policy by the CBN to iron out grey areas; embarking on intensive awareness campaign and sensitization of the citizenry by the CBN; putting adequate security mechanisms in place to forestall fraudulent practices; making the public power supply work efficiently; and exempting cash lodgments and public holidays from cash management charges.

Keywords: Cashless Policy, Central Bank of Nigeria, Vision 20:20 20, Benefits, Challenges.

1. Introduction

The Central Bank is traditionally the apex bank of a nation. As the apex bank, it plays a major role in the economic development process of a nation. In Nigeria as in most developing countries, the Central Bank has a mandate to perform the following key functions: management and promotion of a sound financial system; serving as a banker to commercial banks and acting as financial agent to the Federal government; ensuring monetary and price stability; issuing of legal tender currency in Nigeria; and maintenance of external reserves to safe guard the international value of the legal tender currency.

In line with the aforementioned mandate, the Central Bank of Nigeria's mission statement is "to be proactive in providing a stable framework for economic development through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial system" (Central Bank of Nigeria 2011). To this end, the CBN has recently introduced a new policy tagged "cashless policy".

As the financial agent of the Federal government, the CBN introduces the policy to minimize money laundering, terrorist financing and other economic and financial crimes in Nigeria (Central Bank of Nigeria 2012). More importantly, the policy aims at reducing the amount of physical cash in circulation and encouraging more electronic- based transactions with a view to meeting the requirements of Nigeria's vision 20:20 20 transformation agenda (Business day 2012, September 14).

The point of departure of the paper therefore is to analyze the policy's objectives and its attendant benefits as well as its envisaged challenges. Accordingly, the paper is structured in the following sequence: section 1 has been the introduction, section 2 examines the conceptual issues; in section 3, implications of cash-based economy are discussed. Section 4 presents the benefits and challenges of the cashless policy while section 5 provides the concluding remarks.

2. Conceptual Issues

What is the Cashless Policy all about?

The cashless policy which took effect from April 1, 2012 in Lagos as a pilot project pegs daily cash transactions over the counter for individuals and corporate bodies at one hundred and fifty thousand naira (N150,000) and one million naira (N1,000,000) respectively. However, these amounts were later reviewed upward to five hundred thousand naira (N500, 000) and three million (N3, 000,000) for individuals and corporate organizations respectively. Any over the counter (OTC) cash transactions above the aforementioned amount for individuals and corporate organizations attract a charge.

The essence of the policy is to shift the economy from a cash-based economy to a cashless one. Thus it is geared towards engendering an efficient payment system anchored on electronic – based transactions. Electronic – based transaction seeks to drive the development and modernization of Nigeria's payment system in line with her vision 20:20 20 goal of being among the top 20 economies of the world by the year 2020 (Central Bank of Nigeria, 2011). It is a truism that an efficient and modern payment system is a key enabler and a sine qua non for driving growth and development. The policy also aims at improving the effectiveness of monetary policy in managing inflation in the economy.

The cashless policy applies to all accounts, including collection accounts and the cash limits apply to an account irrespective of channel (i.e. whether it is over the counter, ATM, third party cheques cashed over the counter etc). As far as cash is involved, any withdrawal or deposit that exceeds the limits attracts a service charge (Central Bank of Nigeria, 2011). The charge is borne by the account holder and is about N100 per every 1000 in bank charges (This day Live 2012, April 25). The limit however does not prevent customers from withdrawing or depositing beyond the pegged limits but such customers should be prepared to pay the aforementioned penal fee.

The implementation of the policy which is currently under going a test run in Lagos is expected to be extended to other states of the federation from January 1, 2013. However, contrary to the initial plan to introduce the policy to all states of the federation by January 1, 2013, the apex bank has now decided to pursue the implementation process in stages, beginning from five additional states and the Federal Capital Territory. These states are Kano, Ogun, Anambra, Rivers, a state in the North Eastern zone of the country and the Federal Capital Territory (FCT), Oketola (2012, July 30).

Desirous of making the policy succeed, the apex bank has introduced a number of financial services which among others include mobile money payment system, point of sale terminals, Alerts and Automated Teller Machines (ATM). Essentially, Mobile Payment System introduced at the dawn of January 1, 2012 allows users to make payments with their GSM phones. It is a saving device and transfer system that turns GSM phone into a saving account platform, allowing owners to save money in it and also make transfers. The Point of Sale (POS) terminals are installed by businesses and connected to the Nigeria Inter Bank Settlement System for purposes of making payments during business transactions.

As mentioned earlier, one of the cardinal objectives of the cashless policy is to actualize the Nigeria's Vision 20: 20 20. What then is vision 20: 20 20? Vision 20:20 20 is an economic transformation blue print which articulates "the long term intent to launch Nigeria onto a path of sustained social and economic progress and accelerate the emergence of a truly prosperous and United Nigeria". In other words, the blueprint expresses Nigeria's intent to improve the living standards of her citizens, taking cognizance of the enormous human and material resources in Nigeria and drive the economy to be among the top 20 economies in the World with a minimum GDP of $900 billion and a per capita income of no less than $4000 per annum (Nigeria vision 20:20 20, 2009).

The economic blueprint intent is aptly captured in the vision statement: "By 2020 Nigeria will have a strong diversified, sustainable and competitive economy that effectively harnesses the talents and energies of its people and responsibly exploits its natural endowments to guarantee a high standard of living and quality of life to its citizens" (Nigeria vision 20: 20 20, 2009). To achieve the provisions of Nigeria Vision 20: 20 20, efficient and modern payment system is critical, which the cashless policy seeks to address.

3. Implications of Cash Based Economy

Nigeria is a heavily cash oriented economy with retail and commercial payments primarily made in cash. Indeed, cash is a strong motivator in Nigeria's highly informal economy. According to the Central Bank of Nigeria (2012), cash related transactions represented over 99% of customer activity in Nigerian banks as at December 2011. Table 1 shows cash transactions in Nigerian banks at various channels.

From table 1, it is crystal clear that Nigeria is a cash – based economy. Cash withdrawals from both the ATM and over the counter (OTC) represent the highest volume of transactions amounting to 85 per cent (see figure 1). Cheques and POS have about 29,159,960 and 1,059,069 volume of transaction representing 14 per cent and 1 per cent respectively which is an insignificant or negligible transaction volume, while the WEB channel accounts for zero per cent of transaction volume (figure1).

Cash – based economy is not without cost to the banking system, government and individuals. High cash usage, results in high cost of processing, borne by every entity across the value chain (i.e. from the CBN, to banks, to the operating entities and individuals as well). For example, the cost of printing new bank notes as a result of frequent handling of cash is said to cost the Central Bank of Nigeria (CBN) a colossal amount annually.

Generally, cost of cash to Nigeria's financial system is high and increasing. It is estimated to reach N192 billion in 2012 (Central Bank of Nigeria, 2011). Figure 2 presents direct cost of cash to financial system in Nigeria in 2009. the figure indicates that cash in transit cost and cash processing cost stood at N27.3billion and N89.1 billion, representing 24 percent and 67 percent respectively, while vault management cost amounted to N18.1billion representing 9 percent of the total direct cost of cash to the financial system. The grand total of cost of cash to both the Central Bank of Nigeria (CBN) and other banks in 2009 reach a terrifying amount of N114.5billion (see figure 2).

It is also worthy of note that cash is an integral element that fuels several vices in Nigeria with negative consequences to individuals, corporate organizations and the government. These vices among others include corruption, revenue leakage out of government and corporate organizations' coffers, election rigging, armed robberies and other cash related crimes. In the light of the foregoing, the introduction of the cashless policy by the Central Bank of Nigeria (CBN) is applauded as a policy package with bountiful benefits as it seeks to encourage cashless payments, thereby arresting some of these cash related vices.

4. Benefits and Challenges of the Cashless Policy

4.1 Benefits of the Cashless Policy.

The cashless policy, if successfully implemented has the following potential advantages:

i. **Reduction in Cost:** A cash-based economy is usually associated with high cost of cash along the value chain – from the CBN and the banks to corporations and individuals; everyone bears the high costs associated with volume cash handling (see figure 2). A shift towards a cashless economy will alleviate these costs. Operational costs are due to the high costs accrued in cash management, currency sorting, cash movements and frequent printing of currency notes.

ii. **Reduction in the Risk of Using Cash:** The use of physical cash encourages cash related crimes like armed robberies and burglaries. It can also lead to financial losses incase of fire outbreaks. But a cashless economy minimizes such negative consequences.

iii. **Reduction in Subsidy of Cash Transaction Costs:** Cash – based economy is associated with high subsidy of cash transaction costs. A recent research conducted by the CBN reveals that 90% of bank customer daily withdrawals are of amounts below N150, 000 whereas, only 10 percent of bank customers who withdraw over N150, 000 are responsible for the rise in cost of cash management being incurred by all the bank customers. This implies that the entire banking population subsidizes the costs that the minority 10 per cent incurs in terms of high cash usage. A cashless economy will reduce this subsidy and make the minority 10 per cent of the banking population account for the cost of cash management they incur rather than the entire banking population.

iv. **Informal Economy:** High cash usage results in a lot of money outside the banking system or formal economy. This militates against the effectiveness of monetary policy in managing inflation and boosting economic growth. A cashless economy stands to arrest this.

v. **Reduction of Corruption:** A cash-based economy encourages corruption manifesting in form of money laundering, leakages etc, whereas a cashless society reduces such fraudulent practices.

A part from the general advantages highlighted above, a variety of benefits are expected to be derived by various stakeholders such as the consumers, corporate organizations and the government.

* **The Consumers:** For the consumers it brings about increased convenience; more service option; reduced risk of cash related crimes; cheaper access to (out of branch) banking services and access to credit.

* **Corporate Organizations:** For corporate organizations, it ensures faster access to capital; reduced revenue leakage; and reduced cash handling costs.

* **Government:** For the government, it brings about increased tax collection, greater financial inclusion, reduced revenue leakage and increased economic development.

4.2 Challenges of the Cashless Policy.

The cashless policy of the CBN, even though it comes with huge benefits, also has some envisaged challenges: These challenges are summarized below.

i. **Fraud:** The policy faces the danger of payment fraud. Experience of the pilot scheme in Lagos so far, has witnessed high incidence of fraud.

ii. **Indiscriminate Deductions from Accounts:** The Lagos experience has also revealed that there are cases of indiscriminate deductions from consumers' accounts, arising from inefficient mastery of the new technology by the financial service providers.

iii. **High Rate of illiteracy:** A country like Nigeria that has a high rate of illiteracy will not embrace a cashless economy without some challenges. Illiteracy will among others, be the greatest impediment in the country's shift towards a cashless society.

iv. **Inefficiency:** Another challenge to the successful implementation of the cashless policy is inefficiency brought about by poor infrastructure. For example on many occasions people go to ATM to make withdrawals, the cash is not dispensed to them even after the system had debited their accounts. Or there may be problem of network failure. Thus with this, the ATM and POS machines cannot work when the consumers need them.

v. **Epileptic Public Power Supply:** Another known infrastructural challenge is the public power supply system. Electric power is critical for efficient e-payment. Unfortunately in Nigeria, the power system is very epileptic where it is available and in most rural areas it is non existent. This undoubtedly will militate against the success of the cashless policy in Nigeria.

5. Concluding Remarks

The paper has attempted to examine the benefits and the challenges of the Central Bank of Nigeria's cashless policy in Nigeria. While the policy comes along with tremendous benefits, there are also some challenges. In the light of the aforementioned challenges, the

Paper recommends the following if the policy must succeed:

1. The policy should be periodically reviewed to iron out thorny issues or grey areas.
2. The CBN should embark on intensive awareness campaign and sensitization of the populace including the educated and uneducated, the urban and the rural population, about the newly introduced cashless policy.
3. Adequate security mechanisms should be put in place to safeguard the interest of consumers against dubious and fraudulent practices of fraudsters.
4. Government should intensify efforts and be more pragmatic in its power reform agenda with a view to making power supply efficient and reliable to drive the electronic – based payment system.
5. Cash management charges should only be applicable to withdrawals exceeding the pegged limits and not cash lodgments and public holidays should be exempted from cash management charges. For example, at the eve of public holidays there is always increase in the demand for goods and services, bearing in mind that most businesses will remain closed on public holidays. Payments arising from such transactions to suppliers (sellers) of goods and services by buyers may exceed the daily limits. If this happens, the sellers or service providers' accounts are debited for cash management charges. This is very unfair and should not be so.

If Nigeria's quest to mitigate cash related vices, reduce cost of banking services, drive financial inclusion, improve the effectiveness of monetary policy in managing inflation and hence drive economic growth as well as achieve the provisions of the vision 20:20 20 development agenda is to be realized, then the success of the cashless policy, is a task that must be done.

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Table 1: Banks Cash Transactions and Payment Channels As At December 2011

Payment Channel	Transaction Volume
ATM withdrawals	**109,592,648**
OTC cash withdrawals	**72,499,812**
Cheques	**29,159,960**
POS	**1,059,069**
WEB	**2,703,516**

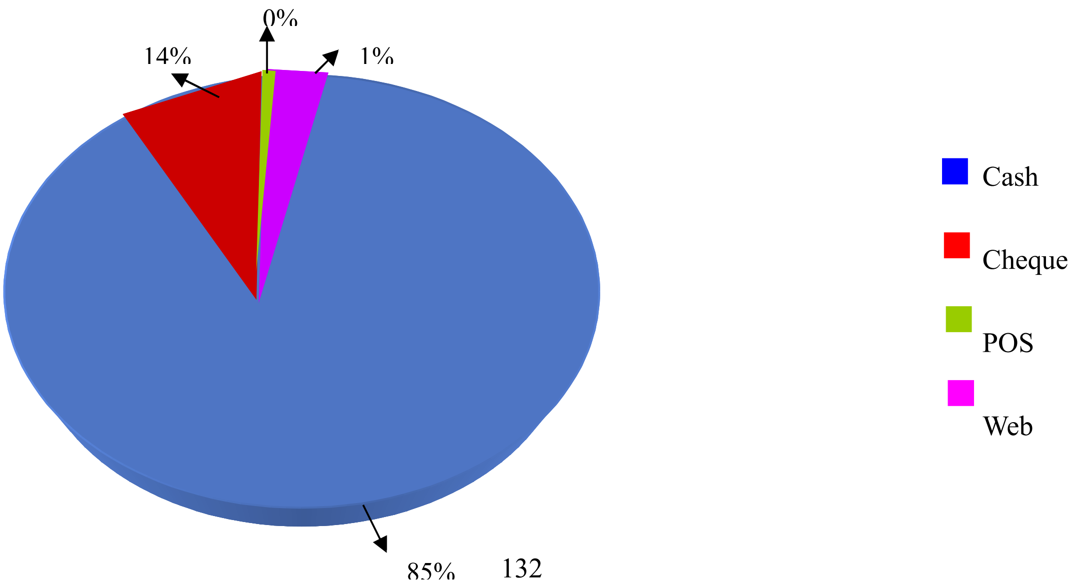

Figure.1: Percentage of Banks Transactions and Channels

Source: Central Bank of Nigeria (2012) Towards a cashless Nigeria: Tools and strategies.

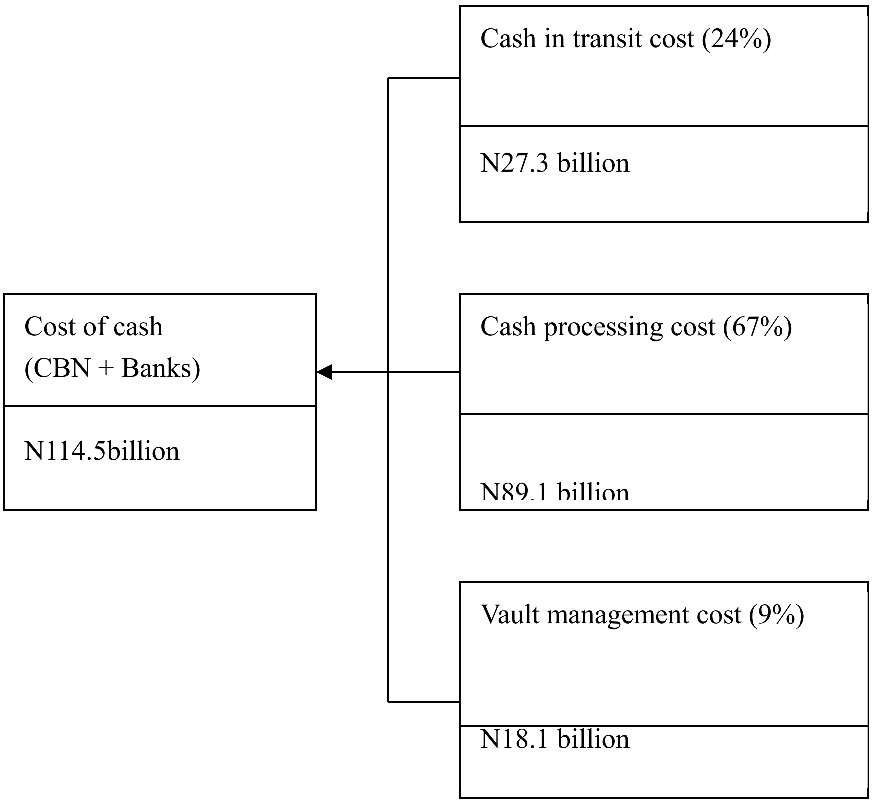

Figure 2: Direct Cost of Cash to Financial System in Nigeria (2009)

Source: Extracted from Central Bank of Nigeria (2012).Towards a Cashless Nigeria: Tool and Strategies.