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TOWARDS CASH-LESS ECONOMY IN NIGERIA: ADDRESSING THE CHALLENGES, AND PROSPECTS**AGUDA NIYI A.****LECTURER****BANKING AND FINANCE DEPARTMENT****WAZIRI UMARU FEDERAL POLYTECHNIC****BIRNIN KEBBI****ABSTRACT**

A cashless economy is described as an environment in which money is spent without being physically carried from one person to the other. The objectives of the policy include the desire to drive development and modernization of the payment systems in Nigeria; reducing the cost of banking services (which include the cost of credit) and cost of delivering financial services; improving the effectiveness of monetary policy, managing inflation and encouraging economic growth, etc. The policy has a lot of benefits to all the stakeholders like the consumers, corporations, the CBN, other banks, government as well as the economy at large. The policy is an efficient and modern payment system that is positively correlated with economic development as it serves as a key factor to achieve economic growth. The pilot programme stated in Lagos State and is hope to take full effect all over the country January 1st 2013. However certain challenges seem to militate against the success of the programme ranging from Power, IT infrastructure, publicity/awareness, massive need for education, security, cyber-crime and theft, high level of illiteracy, job losses among others. But the CBN, other banks and financial institutions, government and other stake holders are taking appropriate steps towards addressing the challenges for successful actualization of cashless Nigeria.

KEYWORDS

cash-less economy, modernization of payment system.

1.1 INTRODUCTION

The Central Bank of Nigeria (CBN) has continued to reform the financial sector aimed at encouraging E-payments and E-commerce in order to reposition the nation's economy and make it relevant to the new global financial environment. To achieve these goals, the apex bank recently introduced **Cashless Policy** (otherwise known as **cash-lite** policy) which is designed to reduce the use of cash in business transactions in Nigeria.

A cashless economy is an environment in which money is spent without being physically carried from one person to the other. The first issue in the cashless economy is the issue of electronic purse. This is electronic information that is transmitted to a device which reveals the information about how much a person has stored in the bank and how much he can spend.

It is against this background that the Central Bank of Nigeria introduced the cashless policy in order to ensure that banking services get to everybody and offers all platforms for empowerment that will change the way people transact businesses and living generally.

The major objectives of the policy include the desire to drive development and modernization of the payment systems in Nigeria; reducing the cost of banking services (which include the cost of credit) and cost of delivering financial services; and also improving the effectiveness of monetary policy, managing inflation and encouraging economic growth." The new policy is also intended to diminish the need to carry cash and thus minimize cases of armed robberies and other crimes often visited on carriers of heavy cash.

The apex bank further posits that "high cash usage enables corruption, leakages and money laundering" among other cash-related fraudulent activities.

Experts pointed out that with the introduction of the cash-less policy as well as the apex bank financial inclusion will go a long way to bring a lot of people into the banking system. The cash-less policy aimed at reducing the dominance of cash in the system, will also lead to about 30 per cent reduction in cost of banks' operations.

According to Adepetun and Adekoya(2012) The apex bank had since last year, been touting the implementation of the cash-lite policy until it fixed the take off date for January 1 this year but later shifted it to April 1 for Lagosians.

Meanwhile, based on the review, the pilot programme in Lagos State has now been extended to December 31st, 2012 in order to create more awareness and aid the adoption of the new initiative. As such, the rollout of the programme in other states of the federation has been deferred till January 1st, 2013.

2.1 STEPS BY THE CBN

After introspection, the CBN raised the daily cash deposit/withdrawal limit for individuals from N150,000 to N500,000 while for corporate organisations from N1 million to N3 million.

The Central Bank of Nigeria (CBN) has also introduced a new policy on cash-based transactions which stipulates a 'cash handling charge' on daily cash withdrawals or cash deposits that exceed N500,000 for Individuals and N3,000,000 for Corporate bodies. The new policy on cash-based transactions (withdrawals & deposits) in banks, aims at reducing (not eliminating) the amount of physical cash circulating in the economy, and encouraging more electronic-based transactions (payments for goods, services, transfers, etc.)

According to the apex bank's spokesman, M. M. Abdullahi, "the processing fee for withdrawals above the limit for individual customers has been reviewed downwards from 10 per cent to three per cent, while the processing fee for withdrawals above the limit for corporate bodies has also been reviewed downwards from 20 per cent to five per cent.

"The processing fee for lodgments above the limit for individual customers has been reviewed downwards from 10 per cent to two per cent, while the processing fee for lodgments above the limit for corporate bodies has also been reviewed downwards from 20 per cent to three per cent."

The apex bank granted exemptions to Ministries, Departments and Agencies (MDAs) of the Federal and state governments on lodgments for accounts operated by them, for the purpose of revenue collections only.

Aside the exemptions granted the MDAs, the apex bank also excluded specialized international institutions such as embassies, diplomatic missions, as well as multilateral and aid donor agencies from penalties on withdrawal and deposit limits.

The CBN had earlier waived penalties on the cash limit for primary mortgage institutions and microfinance banks.

3.1 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.
4. The cash policy also 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.

Cash is expensive to print, secure and distribute, it reduces the transparency of an economy, and it can negatively impact the government's focus, which in turn reduces government's ability to deliver services to its citizens.

- **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 150k, but the 10percent account for majority of the high value transactions. This suggests that the entire banking population subsidizes the costs that the tiny minority 10percent 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.
5. **To reduce the quantity of cash in circulation.** For advocates of the cash-less policy, it has been observed that cash dependency has been a major concern for the CBN governors, both past and present trying to reduce the quantity of cash (not necessarily amount) that people log around in "Ghana-Must-Go" bags by trying to revalue the naira. Current CBN governor, Sanusi Lamido Sanusi aims to tackle the same issue by imposing withdrawal limits through the cash-less policy.

According to the CBN, the nation as at December 2011 had 24 deposit money banks with 5,789 branches and 816 microfinance banks bringing the total bank branches to 6,605.

Further investigations showed that the number of unbanked in the country is very high. Figures from EFINA showed that over 70 million of Nigeria's 150 million Nigerians are presently unbanked and this poses a great risk to the effective implementation of the policy. According to EFINA, more Nigerians have mobile phones than those that own bank accounts.

The cash-less policy, as explained by the CBN will ultimately empower the previously unbanked populace to open accounts and perform e-transactions across the nation without having to visit their bank branches.

Ojomuyide (2012) said, "The decision to change the way that Nigerian citizens conduct their payments behaviour is a brave one, and the CBN is blazing the trail ahead of its African counterparts in its commitment to reduce the amount of cash circulating in the economy. Businesses that depend on cash transactions cannot grow their customer base beyond the individuals who can visit them in person to deliver cash payments.

4.1 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. It also saves lives. Incidents of armed robbers attacking and dispossessing people of their cash will greatly reduce if cashless initiative is introduced, because even the robbers would know that people are no longer carrying cash about any more.
- **For Corporations:** Faster access to capital; reduced revenue leakage; and reduced cash handling costs.

For Government and the economy at large: Increased tax collections; greater financial inclusion; increased economic development. Increased tax collections; increased economic development. An efficient and modern payment system is positively correlated with economic development as it serves as a key factor to achieve economic growth. According to Fatokun,(2012), good example is Kenya where it has been proved that a half percentage increase in their national Gross Domestic Product (GDP) growth is attributable to mobile money transactions".

Akano (2012) also pointed out the numerous benefits derived in a cashless economy. It saves money when we go cashless; at least the money used in printing notes will be saved. It will also reduce the cost of transporting money from one place to another, particularly with Bullion Vans. Also when cashless society is implemented the right way, it becomes very impossible for people to exchange cash at government levels. The bribery scandal rocking one of the members of House of Assembly would have been impossible in a proper cashless society.

For the CBN: Sanusi,(2012) noted that the financial inclusion initiative of the apex bank is expected to bring about 50 million more Nigerians into the banking system. He added: "The cashless policy will help achieve the CBN's objective of expanding, deepening and modernising the payment system in Nigeria and also galvanise the CBN in ensuring that Nigeria ranks among the top 20 economies of the world in line with the nation's vision 2020 aspirations.

The CBN cashless policy was designed to break the traditional barriers hindering financial inclusion for millions of Nigerians and bring low-cost, secure and convenient financial services to urban, semi-urban and rural areas across the country especially through the mobile payment services," he added.

He also said "from the regulatory angle, this policy will also create an environment for more effective monetary policy implementation, create a more stable pricing system and curb the menace of inflation which is deterrent to the growth and development of any economy".

Oladipupo Fatokun, the Director, Banking and Payment Department, CBN, says that the cash-less policy is also expected to reduce revenue leakages which normally arise from the significant handling of cash.

The initiative, according to Fatokun,(2012) is also expected to solve the challenges associated with inefficient treasury management, corruption, election rigging, as well as the limitation of monetary policy transmission.

The policy is also expected to modernize Nigeria's payment system, reduce high subsidy of cash and meet the Vision 20:2020 requirement. The concern for financial inclusion is valid as no nation can progress and develop if majority of its population is under-banked or have no access to financial services.

5.1 CHALLENGES

Analysts believe that the CBN policy is one in the right direction, especially to mitigate the pangs of corruption in the country. But they expressed fears over its success, citing many challenges to its realization.

While some people have expressed doubt about the effectiveness of the sensitisation campaign exercise, as well as protecting the interests of merchants and people in the informal sector, some have decided to render the Point-of-Sale (PoS) terminals useless, while others have cited the need for the apex bank to be proactive in addressing the security and technological challenges associated with e-transactions.

The implementation of any new policy, especially those that demand attitudinal change from the public, is an inherently complex endeavour that involves multiple players and multiple systems. Whereas a discrete body of decision makers adopts most policies, they are implemented by a much wider group of actors.

The new policy has since sparked off rounds of controversy in all the sectors of the economy, from banking to telecommunications, even the manufacturing sectors are not left out. Others criticize the policy as premature and hasty.

According to financial experts, the move is too idealistic in a country like Nigeria, with larger percentage of cash in the informal sector. However, they believe that as much as the apex bank hopes to enhance the country's payment system, it needs to understand that the failure of past regimes to achieve this objective is not as a result of the inadequacy in their plans or policies, but their inability to effectively locate the relationships in the systems as one holistic entity.

Analysts believe that one of the reasons why cash-less economy may look gloomy is that for remote payment to work there is a need for a huge base of infrastructure, which needs to be put in place in the form of magnetic card readers and the technology that makes them work. Similarly, they believe that while security concerns remain in many financial transactions, the need to reduce the number of unbanked in the country is also necessary to achieve a cash-less economy.

For instance, some of the reasons adduced as to why there is still a large number of unbanked in the country is communication problem and the issue of bank charges which are not properly communicated to the customer during the account opening process.

To address this, many financial institutions would be required to devise innovative channels to harness the large volumes of cash said to be untapped in the informal sector.

This would further strengthen the banks and their capacity to drive the revolution in the payment system. The CBN has also been advised to collaborate with other agencies of government to encourage businesses to insist on the use of cheques or other non-cash payment methods by their customers or dealers.

As at today, there are only about 10,000 ATMs and 14,000 PoS that are functional in the country, which are on the platform of Interswitch, West Africa's leading transaction switching and e-payment network which connects all the banks, financial, cable broadcasting and telecommunications operators. But the Bankers Committee claimed to have ordered 100,000 and received 70,000 PoS machines so far.

Some other identifiable challenges include: Power; IT infrastructure; publicity/awareness; massive need for education; security; cyber-crime and theft; high level of illiteracy, job losses among others.

According Uwaje (2012) "There are many challenges ranging from broadband infrastructure, tested and accredited application software, trust economy, legislation, human skill capacities, call-centre backbone, consumers profile data, data protection as well as credible regulations security and that need to be put in place."

On the issue of security, he stated that the consequences would be monumental to 70 per cent of the population who live in the rural areas; "moreover, viewed on a longer term, e-pay without a national database system is rather suicidal to a nation with almost zero landline and predominantly mobile wireless -ICT model." He also pointed out that many more steps are still missing for a seamless operation of the policy.

A research conducted by the E-Payment Providers Association of Nigeria (E-PPAN) revealed that 68 per cent of consumers and 59 per cent of merchants surveyed, thought Nigeria was not ready for cash-less economy.

Besides, the association noted that for the 58 per cent of consumers who used electronic payment system in the last six months, 48 per cent of them used it only for withdrawing cash, while only 10 per cent used it for actual purchase and bills payments.

E-PPAN urged the CBN to set up modalities to liaise with the Nigerian Communications Commission to compel telecommunication outfits comply with their existing agreed service level agreement and requisite support for e-transaction and apply stiff sanctions for non-compliance.

On the availability of PoS terminals, Ajibola (2012) noted that most of the market women are still not enlightened about the operations of the terminals as a result of their low literacy level and lack of sensitization on the operations of the terminals. He however expressed optimism about adoption of the cash-less policy.

According to a bank customer, "they want us to go cash-less and they have not provided enough facilities to make the system smooth. The e-payment system is terrible; sometimes you are charged without getting the services you require. When you use the ATM, sometimes it deducts and refuses to dispense cash and when you complain at the bank, they will tell you to write letters that they won't process."

A financial expert, Sokunbi, said the major loophole that may hinder the effectiveness of the policy is that there is no limit to the number of bank accounts that can be operated in one or more banks as well as lack of central database to monitor daily cumulative lodgments into, withdrawals from, more than one bank accounts by individual or entity.

He said hence, many people may decide to open more bank accounts to circumvent limit to cash they can withdraw at once so as to make up for their daily cash need. Or it would be that people would result to keeping cash in the house, which would increase M1 (money outside the banking system) and reduce M2, (money within the banking system) thereby reducing the velocity of circulation. Sokunbi said cash deposits in the banks would reduce, impacting on the ability of the bank to lend out money, and the money in circulation will slump.

Akano,(2012) "Judging by what is on ground as at today, Nigeria is not fully ready. As far as cashless economy and IT security is concerned, the expenses the banks have made so far are on their networks and not on customers' awareness. That is the opposite way of preparing for a cashless economy. As we speak, a great majority of people still don't know what to do to protect themselves while doing transactions online. That aspect of awareness cannot be ignored or even be treated with levity, if we are to be taken seriously. So for us to be fully ready, we can borrow a leaf from the strategy in South Korea. When the country started cashless economy, the bulk of money for the first year was spent on education of people. It was not until people were fully educated and empowered with what and what not to do in a cashless economy that the country effectively launched the system.

In Nigeria, though the banks are getting ready, but the people are not getting ready. There is also the need to have an integrated platform for identifying Nigerians. This is also very important in the identity management for successful cashless transactions.

Reuben (2012) is of the view that there is the need to address the fundamental infrastructures and critical templates upon which the successful implementation of a cashless policy is predicated on. For the opponents of the policy, the crippling impact of epileptic electricity supply remains an albatross in the country's quest for development. The Automated Teller Machines (ATMs), the Point of Sales (PoS) machines, computers and mobile phones all require electricity as source of energy. How would the Nigerian bank customer transfer fund; make payments or conduct other electronic transactions when these technological devices cannot work all the time because of lack of constant electricity supply?

According to him, the new policy must take cognizance of the low computer literacy level of the banking public, especially the rural dwellers, most of whom remain largely unbanked, but nevertheless, contribute some measurable quota to the country's Gross Domestic Product (GDP). How would the market women and other small business owners who are long accustomed to cash transactions, suddenly and smoothly make a transition to the new policy within the short time limit?

6.1 WAYS OUT

Tunde Lemo,(2012) said the high dependence on cash for settlements has resulted in the inefficient allocation of resources and a low depth of financial intermediation with downside effects on monetary operations and monetary policy management.

He said strengthening currently available modes of electronic payments, further deployment of ATMs is being encouraged, although to drive more cash-less transactions as opposed to its traditional cash dispensing functions.

According to him, the CBN has a target of deploying 150,000 PoS machines by December 2012, which would be scaled up to 375,000 by the end of 2015 when it hoped to have attained benchmark PoS penetration of 2,247 PoS per 100,000 adult population as obtainable currently in Brazil.

Already, Credit Awareness Nigeria, a financial non-governmental organisation has begun its campaign on financial literacy and responsible borrowing in the informal sector. With more than 79 per cent of Nigerians, comprising mostly those at the lower strata in the society who do not properly understand the workings of the financial sector, the firm has concluded plans to penetrate the informal sector of the economy through its financial literacy campaign to enlighten and reach the unbanked population.

The transition to a cashless economy will raise a lot of security issues in our financial institutions. IT professionals should be ready to provide a robust IT support. Therefore, the indigenous professionals should rise up to this challenge and support the banks on making the policy a huge success.

Reuben (2012), suggested the following measures as thus critical for the implementation of this new programme against the backdrop of the flaws so far identified in this policy:

The CBN must build a sound financial technology and infrastructure and seek the assistance of the government to address the intractable problem of electricity. A sound technology will solve the problems of network connectivity and the frequent "not-in-service" signs on the ATMs. In addition, ATMs must be deployed across Nigeria in areas that are accessible, to reduce the long queues usually seen within bank premises. A good implementation framework will also forestall or reduce cases of fraud at the ATMs, identify theft and other cyber crimes which are serious issues of concern to the bank customer.

Education of the public remains an important step in the new programme implementation. The CBN will have to carry out a vigorous public enlightenment campaign to sensitize the populace on the workability and benefits of the cashless initiative; build confidence in the people that their financial transactions are safe and secure.

Banks may also partner with industry stakeholders to build and equip Computer Learning Centers nationwide where local people, market women, senior citizens and indigent students can learn the use of computer technology at little or no cost. This knowledge may make this segment of the population more receptive of the challenges posed by technology-induced banking policies.

The CBN may also consider forming public/private partnership within and outside Nigeria, which may create massive capital injection and expertise into building the needed technology. This will solve the problems of inter-operability of payments and tackle other security issues.

PoS merchants in the country are also appealing to the Nigerian Inter-bank Settlement Scheme (NIBSS) to move from transaction day plus one clearing system, currently in place, to same-day clearing process to enable the cash-less policy work effectively.

The Head, Share Services Office, CBN, Chidi Umeano, said most of the complaints would be addressed before the policy is implemented nationwide. While he agreed that banks were making exorbitant deductions on e-payment products, Umeano called for the standardization of pricing so as to encourage usage and adoption of alternative channels.

According to him, banks are currently deploying 24 hours battery life PoS so as to tackle the challenge of power outage. "We are also encouraging the integration of mobile payment with PoS and ATMs to facilitate cash-back services without human agent(s)."

The CBN is working closely with the Nigeria Deposit Insurance Corporation (NDIC) to design insurance package for mobile money subscribers in the event of failure of any of the mobile payment operators.

For now, what is desirable will be to allow the present cash system to exist side by side with the E- transactions. Overtime, the cashless policy will gain penetration as people will begin to develop faith in the benefits it offers. This will also enable the CBN to deepen and fine-tune the supporting technological structures and the economy will ultimately transit from the present cash system to the envisioned cashless regime.

7.1 CONCLUSION

Hence, the benefits accruable to a cashless economy are enormous such as reduced costs of production, transportation and the danger of carrying large sum of money about will possibly reduce. It will also transform the economy towards positive development in the financial as well as the real sector of the economy. The policy will enhance the integration of our economy as presently 78.8 percent of the country's rural populations are largely unbanked. Nigerian's huge informal economy which is driven by small scale farmers, traders, craftsmen and other types of small and medium sized businesses would be integrated into the formal economy; etc.

However, to achieve its intended purpose, the various challenges militating against the smooth and effective working of the policy should be addressed objectively.

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