

KEYNOTE ADDRESS BY THE GOVERNOR, AT THE NCS 24TH NATIONAL CONFERENCE ON JULY 26TH, 2012.

Distinguished Participants,
Ladies and Gentlemen,

1.0 Protocol

I am delighted to be here with you to deliver this keynote address at this 24th national conference of the Nigeria Computer Society.

I wish to commend the organizers, Nigeria Computer Society for providing this forum to share information on a very key project that is affecting the economy and culture of Nigeria.

Distinguished Participants, it cannot be controverted that central banks the world over are usually at the centre of the development of payment and settlement systems, because of their role of not only overseeing the national payments system but as a catalyst for its development. Most importantly, an efficient payments system enhances financial inclusion, availability, reliability and cost effectiveness of payments services. It also facilitates effective transmission of monetary policy as well as ensuring overall financial stability of the economy. In this wise, the Central Bank of Nigeria is not different and has since its inception vigorously promoted the development of a sound and efficient payment system in the country.

The Shared Services Office is set up to run 5 critical projects: Cash management, payment system transformation, IT Infrastructure and services, IT standards and Back office operations.

Ladies and Gentlemen, at this juncture, let me share with you the rationale and background of the cash policy.

The Nigerian Bankers Committee commissioned a study to identify cost drivers and possibility of proffering lasting solutions. The result of the study indicated, amongst others, high cash intensity in the economy and its impact on high cost structure in the financial value chain. On average, 30% of branch physical space and employees is devoted to cash logistics, handling and storage -the total cash management costs (excluding cost of production, distribution, processing and destruction by CBN) was projected to exceed N190 billion by end 2012. The study also showed that only 10% of customers were responsible for cash transactions above N150, 000 in banks. This implies that the cost of cash for the 10% of customers that make high volume cash transactions was subsidized by the mass public (90%) of banking customers.

In view of the findings of the study, we introduced the cash policy on cash-based transactions which stipulates a 'cash service 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 and NOT eliminating the amount of physical cash circulating in the economy, and encouraging more electronic-based transactions (payments for goods, services, transfers, etc.). We believe this policy will have a direct impact on banking industry efficiency and cost structure. It is expected to reduce the cost of cash to the financial system, will result in significant savings that can be passed on to customers in form of reduced cost of banking services and lower lending rates to borrowers.

2.0 Benefits of Cash-less Nigeria

The cash-less Nigeria project is to promote and entrench electronic payments, as the major channel for payment and settlement, by all economic agents, away from the current dominance of cash based transactions. The new cash-less 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 can also 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 N150,000, 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.

I once again welcome you to this session and would like to use this opportunity to urge you to give the e-payment options a trial and not to depend on hearsay that it does not work. I strongly believe that a trial will convince you and let us all be ambassadors of the e-payment drive.

I thank you for your attention.