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ATANDA, Akinwande Abdulmaliq.*

ALIMI, Olorunfemi Yasiru†

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*[Research Associate], [Globafrique Consulting, Nigeria]. tripplehay777@yahoo.com
†[Associate Research Consultant], [Datatric Research Consulting, Nigeria] [haleemphemy480@gmail.com, datatricng@gmail.com]

Anatomy of Cashless Banking in Nigeria: What Matters?

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Abstract

This study discussed in details the structure, importance, challenges and consequences of the newly adopted cashless policy programme in the Nigerian banking sector. The cashless policy is mainly instituted to enhance the effectiveness of flow of financial resources among economic agents in the economy at least cost possible as well as ensuring prompt cash transfers within the system. The Central of Bank of Nigeria (CBN) cashless initiative is geared towards eliminating the continuous use of physical cash in most daily transactions at the business unit of the economy, as well as regulating, controlling, and securing the financial system. A critical analysis at the policy as contained in this report as identified major constraints that can hinder the effectiveness of the cashless banking without prompt attention by the concerned authority.

Keywords:
Cashless Banking, Cashless Economy, Financial System, Electronic payment, Nigeria

I. INTRODUCTION

The payments system plays a very crucial role in any economy, being the channel through which financial resources flow from one segment of the economy to the other. It, therefore, represents the major foundation of the modern market economy (CBN, 2011). In recognition of this role, the Central Bank of Nigeria led by its Governor Sanusi Lamido Sanusi initiated a form of payment system that limits individual and corporate daily cash transactions in the banking system. Precisely, the Central Bank of Nigeria (CBN) cash limit policy requires that all cash withdrawals and deposits be set at a daily limit of a maximum of ₦150,000 while pegging that of corporate entities at ₦1,000,000, with penalty fees of ₦100 per extra ₦1,000 and ₦200 per ₦1,000 imposed on individual and corporate defaulters respectively.

The Central Bank of Nigeria's reason for the new payment system is attributed to lot of issues affecting the financial system; from check on money Landry and illicit activity, inflation, cost of maintaining an economy predominately cash base, or just good old change which is one factor that's always constant in life. A cashless economy its simply at its prime when all means of payments are carried out without the use of physical cash. Payments will range from a list of options such as cheques, wire transfers, debit and credit cards, online transactions, and mobile banking. The advantages of a cashless society are enormous; from regulating, controlling, and securing the financial system of any economy (Ezumba, 2011).

Essentially according to the Central Bank of Nigeria (2011), there are three pivotal roles for the payments system namely; the Monetary Policy role, the financial stability role and the overall economic role. During the course of the past ten years the Central Bank of Nigeria (CBN), in collaboration with the Bankers Committee, launched the first major initiative to modernize the payments system. The starting point was to automate the cheque clearing system and making it a veritable platform for development of electronic payment channels. Hitherto cheques processing and computations of the net settlement position of banks were done manually. The implementation of the new procedures and rules based on MICR technology revolutionized the cheque clearing system. Consequently, a Centralized Automated Clearing process was established in Lagos clearing zone, whereby with MICR Reader Sorters, necessary information on cheques are captured, built into clearing files and electronically transmitted to the clearing house, from where the net settlement position of participating banks are automatically computed and also electronically transmitted to the Central bank for final settlement. The clearing cycle was subsequently reduced from 5 days to 3 days for local instruments and from 9 days to 6 days in respect of up-country instruments.

However, given the important role that well functioning payment systems has on monetary policy, financial stability and overall economic activity, the Central Bank of Nigeria put in place a set of national payment systems policy objectives as a broad guideline and framework for all payment systems initiatives. In setting out the objectives of the National Payment Systems (NPS), the goal is to ensure that the system is available without interruption, meet as far as possible all users' needs, and operate at minimum risk and reasonable cost. In further making payment system more accessible and easier at minimum risk and cost possible resulted to the pilot CBN Cashless banking project in Lagos in January 1st, 2012 after several deliberations by financial experts, stakeholders, financial service providers and users of its feasibility considering the awareness of banking activities in the country, literacy level, corruption, high risk investment environments, attitudes of financial users, on-line payment fraud, system unreliability, absence of credit facility and poor credit administration. Despites these identified problems, the benefits emanating from the policy is yet to be unknown, if it far outstrips the cost. Although, the main essence of the cashless banking policy is to reduce cash transaction cost of Nigerian banks by 30%; increased access to financial services across the country; and enable greater financial integration and inclusion in order to enhance economic growth and development.

On the basis of the foregoing, this paper succinctly explains the structure of the cashless banking policy in Nigeria and also identified the attributed challenges and macroeconomic implications of the cashless banking initiatives. The major thrust of this paper will serves as a proper directory of insights for policy makers, researchers, financial analyst, financial service providers' and users. The paper also serves as a guide tool for concerned authorities in Nigeria to guide their operations in implementing the cashless banking policy in Lagos and other second pilot projects states in Nigeria. The remaining part of this paper is in six sections. The second section covers the conceptual issues for the better understanding of the cashless banking as a concept. The third section gives an overview of the structure and operations of the cashless banking in Nigeria for more concise insights of the policy goals, shared programs, payments channel in the Nigerian banking system, and transaction structure of banks in Nigeria. The fourth section also covers the regulatory framework and the expected roles of the Central Bank of Nigeria in the economy, while the fifth section provides in details, the rationale for the cashless banking in Nigeria and challenges associated with the policy to be effective. However, the implications and consequences of the cashless banking policy are discussed in the sixth section, while the last section, conclude and provide strategic recommendations for the effective and full implementation of the cashless banking policy in Nigeria as a source of policy lessons for other Africa countries especially in the West Africa Monetary Zone (WAMZ).

II. CONCEPTUAL ISSUES

The Cashless initiative currently led by the Central Bank of Nigeria (CBN) is already live in Lagos since on 1st of January, 2012. The next couple of months it is expected that the CBN implementing this new initiative for a cashless economy and the safe and secure options for making electronic payments in other parts of the country. For better understanding of the cashless banking, the major controversial concept in context of the financial system is "electronic payment".

An electronic payment in its simplest sense is the making of payment(s) via an electronic terminal or platform and forms an integral part of the vast e-commerce ecosystem. The importance of e-commerce seems to be hinged on the prediction of JP Morgan senior analyst Imran Khan that global ecommerce revenue is expected to grow nearly 19 per cent in 2011 to the tune of $680 billion.

Electronic payment systems can be grouped into four broad categories: **online electronic cash system, electronic cheque system, smart cards based electronic payment system and online credit card payment system**. Each payment scheme has its advantages and disadvantages for the customers and merchants. These payment systems have a number of unique requirements: e.g. security, acceptability, convenience, cost, anonymity, control, and traceability. Online credit card payment system seeks to extend the functionality of existing credit cards for use as an online payment tools. According to Izuogu (2002), this payment system has been widely accepted by consumers and merchants throughout the world, and by far the most popular methods of payments especially in the retail markets. This form of payment system has several advantages, which were never available through the traditional channels of payment. Some of the most important are: privacy, integrity, compatibility, good transaction efficiency, acceptability, convenience, mobility, low financial risk and anonymity.

But this payment system has raised several problems before the consumers and merchants. Irrespective of the convenience offered by this form of payment, it is still fraught with a lot of security challenges. Recent experience has shown that cyber criminals have evolved in response to the current trend for making payments online by engaging in phishing attacks such as website spoofing. Web site spoofing occurs where the cybercriminal masquerades as a known entity by setting up a phony website very similar to the website operated by the entity and attempts to obtain valuable information such as the credit card details from the online consumer. In response to this threat, trusted entities in the website community established the Extended Validation (EV) Certificate. An EV certificate is a type of public key certificate issued to a website operator according to a specific set of identity verification criteria. These criteria require extensive verification of the requesting entity's identity by the issuing "trusted third-party" certification authority before the certificate is issued.

It is worthwhile to mention that the guidelines on electronic banking introduced by the CBN in 2003 is silent on the obligations of financial service providers to ensure that websites used for e-banking transactions are protected with EV certificates or even any form of secure socket layer (SSL) encryption technologies. Now, with the introduction of the cashless banking in the Nigerian financial system, the major question of concern is, how will the CBN guide against electronic related frauds?

III. OVERVIEW OF CASHLESS BANKING IN NIGERIA: STRUCTURE AND OPERATIONS

3.1 Structure and Guidelines

The Central Bank of Nigeria (CBN) introduced a new policy on cash-based transactions which stipulates a 'cash handling charge' on daily cash withdrawals or cash deposits that exceed ₦150,000 for Individuals and ₦1,000,000 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.) (CBN, 2012).

The policy stipulated by the CBN (2012), as commencing in Lagos State ("tagged Cash-less Lagos") from January 1st 2012 that:

- 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.

- 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.
- **Location**
    - The pilot shall be run in Lagos State.

- **Account Application**
  - 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**
  - The limits are **cumulative** daily limits each for withdrawal, and for deposits (e.g. for Individuals, the daily free withdrawal limit is ₦500,000; while the daily free deposit limit is ₦500,000)
  - 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 ₦450,000 over the counter, and ₦150,000 from the ATM on the same day, the total amount withdrawn by the customer is ₦600,000, and the service charge will apply on ₦100,000 - 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**
  - The charges shall apply from March 30th 2012 in Lagos.
  - 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.
  - The service charge for daily withdrawals above the limit into an account shall be borne by the account holder.
- **Interstate Transactions**
  - Charges/fees shall apply for all transactions in Lagos, and on Lagos State based accounts.
  - 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).

    - 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 January 1st 2013. The policy does not prohibit withdrawals or deposits above the stipulated amounts, but that such transactions will be subject to cash handling charge.

3.2 Cashless Banking Policy in Nigeria: Goals and Cross-Industry Collaborations

Payment is the key driver of cost distribution, which accounts for almost 60% of the Nigerian banking industry cost base (2011b). The major objectives of the cashless banking policy of the Central Bank of Nigeria are:

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

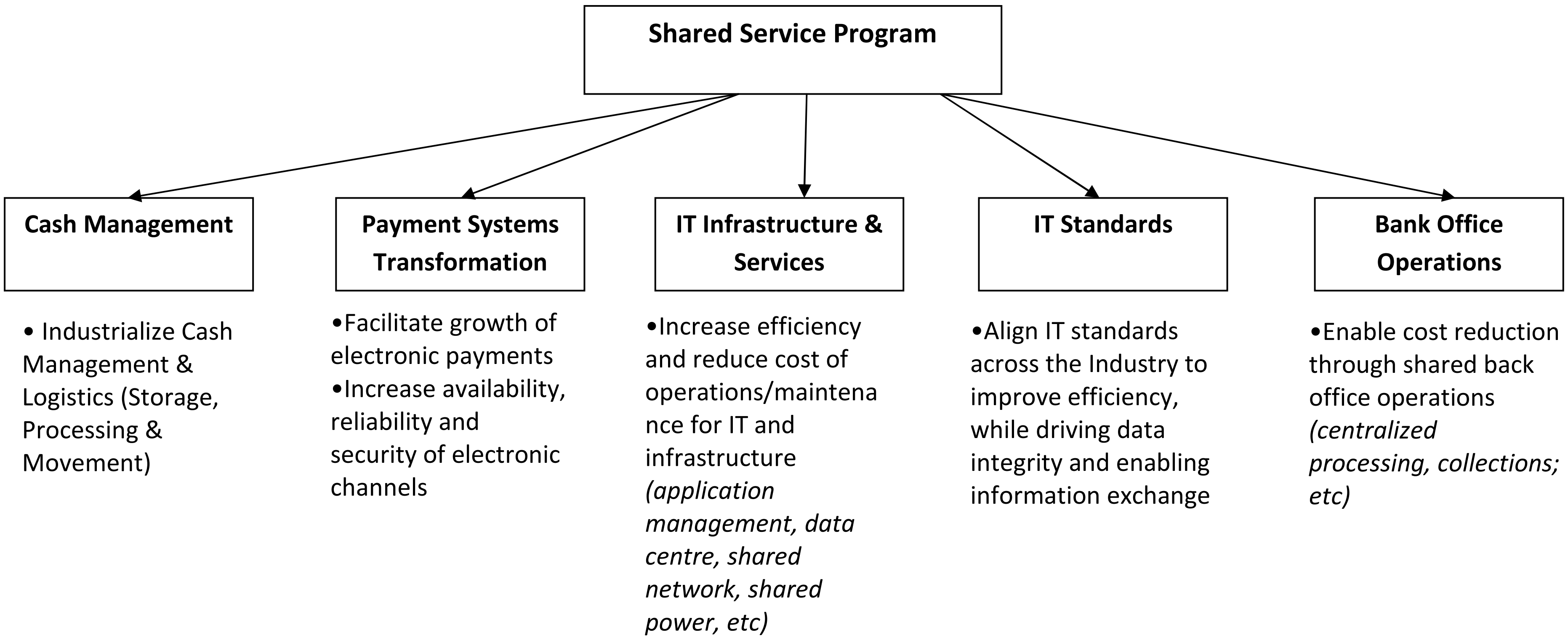
In pursuit of these goals, the Central Bank of Nigeria collaborated with the Banker's Committee of Nigeria under the Shared Service Program (SSP) framework. The SSP framework is designed to access and improve cash management, payment systems transformation, Information Technology (IT) infrastructure and service, IT standards, and bank office operations. The objectives of each of the share service program framework are schematically shown in Figure 3.1.

However, the payment system transformation as a cardinal component of the Shared Service Program (SSP) framework being implemented in Lagos under the "Cashless Lagos" pilot project involves the cross-industry collaboration efforts of several parties (Banks, CBN, Lagos State Government, NIBSSS, Merchant/ Consumers, POS Manufacturers, Telecom Providers, and Switches/ Processors) as presented in Figure 3.2.

The major goals of the cross-industry collaboration are:

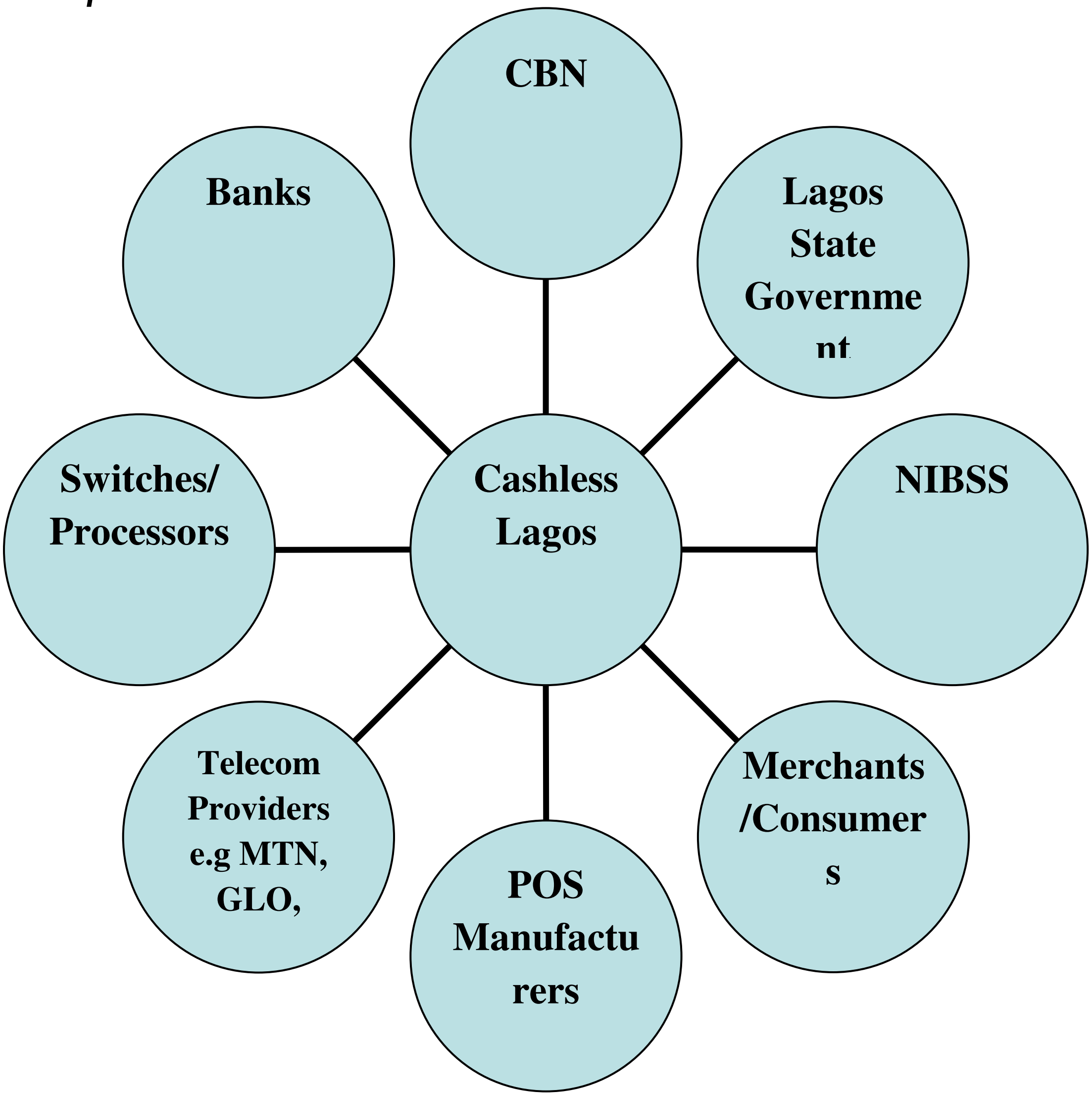
- Implement new cash policy and demonstrate Feasibility/Benefits;
- Significantly increase POS penetration and usage; and
- Significantly push awareness and usage of other electronic channels *(e.g. Direct Debit, Electronic Funds Transfer, Mobile payments, ATMs etc)*

Figure 3.1: Goals Structure of Cashless Banking Shared Service Program in Nigeria



Source: CBN Cashless Lagos Implementations Stakeholders Session (October, 2011)

Figure 3.2: Cashless Lagos Cross-Industry Collaboration for Payment System Transformation



Source: CBN Cashless Lagos Implementations Stakeholders Session (October, 2011)

Moreover, the Central Bank of Nigeria (CBN) with the support of other industry stakeholders is making efforts to increase the alternative channel penetration, functionality and ease of use of the following:

•**Point-Of-Sale Systems:** Card Neutral (Interoperability); Improved Connectivity; Greater reach/deployment, T+1 settlement

•**Mobile Payments:** Eleven players fully licensed; few others in pilot mode

•**Multi-functional ATMs**: Withdrawal, Cash-deposit, Bill payments, etc

•**Internet Banking:** Intra and Inter Bank funds transfer

•**(Instant) Electronic Funds Transfer:** Instant transfer option currently offered through NIBSS

• **Direct Debits:** Automated Direct Debit option being piloted with a few Banks and Billers

Despite all the arrangements and implementation strategy deployed, these areas still posed serious challenges to the effectiveness of the Cashless Banking Policy in Nigeria, Lagos in particular.

3.3 Cashless Banking Policy in Nigeria: Opportunities and Support Areas for Stakeholders

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. Increased tax collections; greater financial inclusion; increased economic development.

In a stakeholder engagement session by the Central Bank of Nigeria (2011b) themed "Cashless Lagos Implementation" identified the expected benefits and support areas of the new cashless banking policy to government, consumers, corporations, and banks. This is shown in Table 3.1.

Table 3.1: Stakeholders Benefits and Support Areas of Cashless Banking Policy in Nigeria

Stakeholders	Expected Benefits	Areas of Support
Government	•Optimize tax revenue collection •Increased economic growth (positive correlation with increased payment efficiency) •Increased financial inclusion	•Tax incentives to drive adoption of electronic payments •Laws to support electronic processing & payments •Continued support of E-payments drive through own internal processes
Consumers	•Faster, easier payments •Increased convenience/access (more payment options) •Reduced risk of robbery	•Consumer sensitization & awareness •Consumer education – knowledge of their rights •Feedback forums to regularly engage various customer segments and monitor quality of dispute resolution.

Corporations	•Better access to capital due to shorter payment processing times •Increased efficiency of payment processes and accounting •Reduced revenue leakages •More efficient treasury management	•Embrace alternative channels – for internal use and dealing with 3rd parties *(proactively engage banks on solutions; electronic bill payments, etc)* •Sign-up for Direct Debit *(where applicable)* •Transfer some of efficiency benefits to customers via incentives to encourage e-channels
Banks	•Efficiency through electronic payment processing •Reduced cost of operations (cash handling) •Increased banking penetration	•Increase availability, functionality, and dispute resolution process for e-channel solutions •Begin customer engagement on alternative platforms now & participate in engagement sessions •Order POS terminals & source merchants •Leverage NIBSS service offerings

Source: CBN Cashless Lagos Implementations Stakeholders Session (October, 2011)

IV. CASHLESS BANING IN NIGERIA: RATIONALE AND CONSEQUENCIES

4.1 Rationale for the Cashless Banking in Nigeria

Despite this revolution in e-business, the Nigerian economy remains largely a cash and carry affair due to low level of literacy especially financial literacy, technical inadequacy, low level of trust on financial instrument, on-line payment fraud, system unreliability, absence of credit facility and poor credit administration due to the absence of credit bureau. There is also the problem of adverse socio-political environment, dualistic nature of Nigerian economy and the legal and institutional weakness in monitoring and credit administration. Added to these, is the fact that Nigeria is grossly under banked. Over 60% have neither access to banking facilities nor financial and economic institutions. A sizeable portion of the total money in circulation is outside the banking system.

According to the CBN (2012), the new cashless banking 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.

Komolafe (2012) noted as a rationale for the CBN's cashless economy initiatives that the cash transactions represent over 99 per cent of customers' activities in banks. Statistics from World Bank, MobileActive, Nielsen Online, International Telecommunications Union (ITU), McKinsey, Euromonitor International, Roland Berger and Finscope show that Nigeria remains relatively unbanked compared to Germany, United Kingdom, USA, Saudi Arabia, South Africa, Namibia and Botswana, while Nigeria has 79 per cent of its population unbanked, Germany, United Kingdom, USA, Saudi Arabia, South Africa and Namibia and Botswana have over 59 per cent of their population unbanked compared to Nigeria.

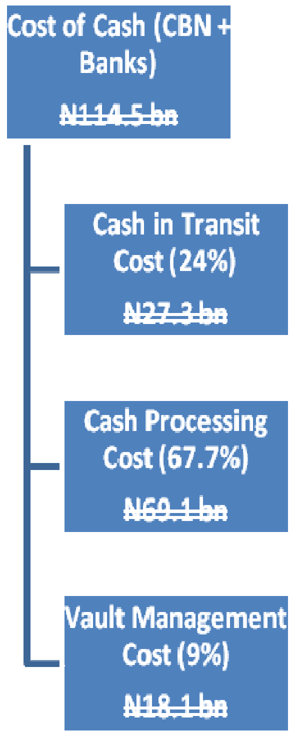
However, bank accounts in Nigeria have grown from seven million in 2004 to 25.4 million in 2010 at 24 per cent compound annual growth rate (CAGR) contributed by the apex bank's policy to switch from magstripe to EuroPayMastercard (EMV) chip and pin card conversion. The present quest of the commercial banks to raise the level of inter-bank processing and transactions volume to over 1100 million before the end of 2012 which would see many more Nigerians using electronic modes of payment for their transactions including payment of utility bills, tax, and banking payments also necessitated the backing for the cashless banking in Nigeria.

However, in support of the introduction of the cash limit policy in Nigeria, the Central Bank of Nigeria (2011b) based on a survey of 24 commercial banks reported that the cost of cash to Nigeria's financial system is high and increasing. The direct cost of cash is estimated to reach ₦192 billion in 2012 from N144.5 billion in 2009 (see Figure 4.1) representing 67.7% growth within four years of operation and average annual growth rate of 17% between 2009 and 2012. In 2009, 67%, 24% and 9% of the total cost of cash by the Central Bank of Nigeria and banks constitute cash processing cost, cash in transit cost, and vault management cost. This indicates that cash in processing and transit costs accounts for the major cost of cash in the Nigerian financial system thus resulting to the high interest rate spread on the monetary policy rate set by the

CBN. However, this has significantly deteriorated investment level in Nigeria.

Estimates of the direct cost of cash (cash in transit, cash processing and vault management costs) from the Central Bank of Nigeria (2011b) as shown in Table 4.1 revealed that direct cost of cash to the Nigeria financial system has maintained an increasing trend since 2008 till projected 2012 (see Figure 4.2) and this has also been estimated to have growth within the review scope (see Figure 4.3).

Figure 4.1: Direct Cost of Cash to Financial System (2009)



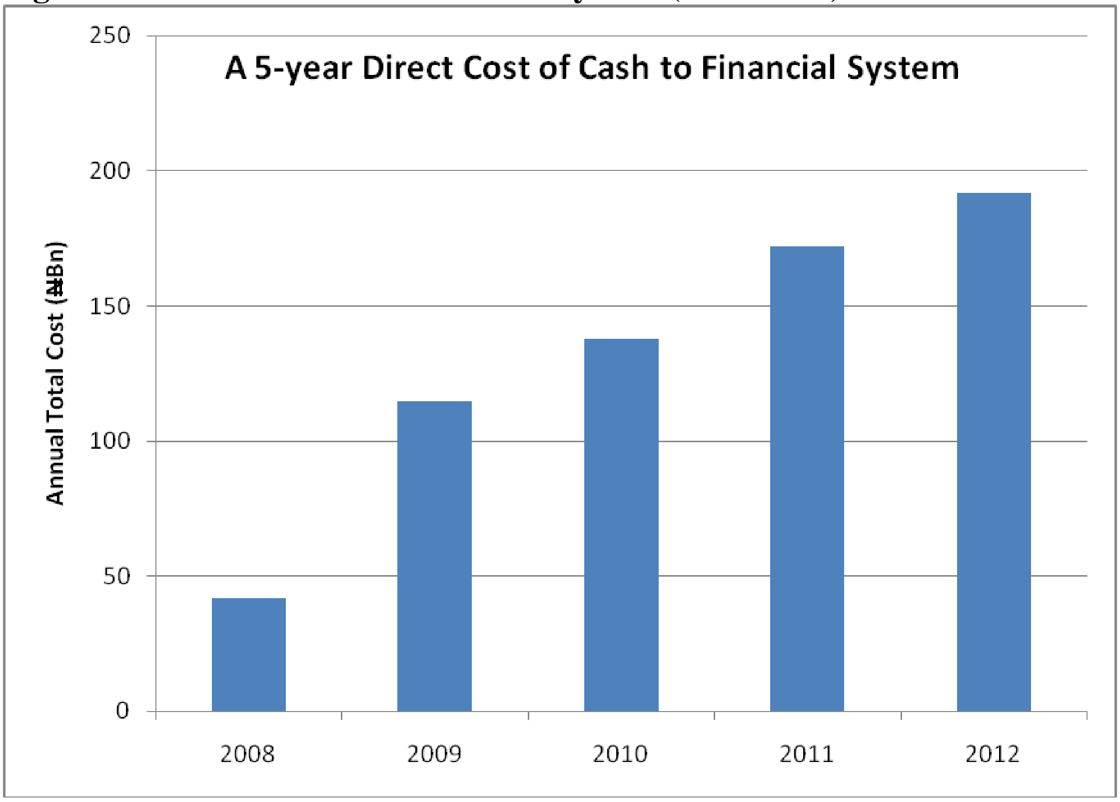
Source: CBN Cashless Lagos Implementations Stakeholders Session (October, 2011)

Table 4.1: Cost of Cash to Financial System in Nigeria

Year	Cost of Cash (₦ Billion)	Annual Growth Rate (%)
2008	42	-
2009	114.5	172.6
2010	138	20.5
2011	172	24.6
2012	192	11.6

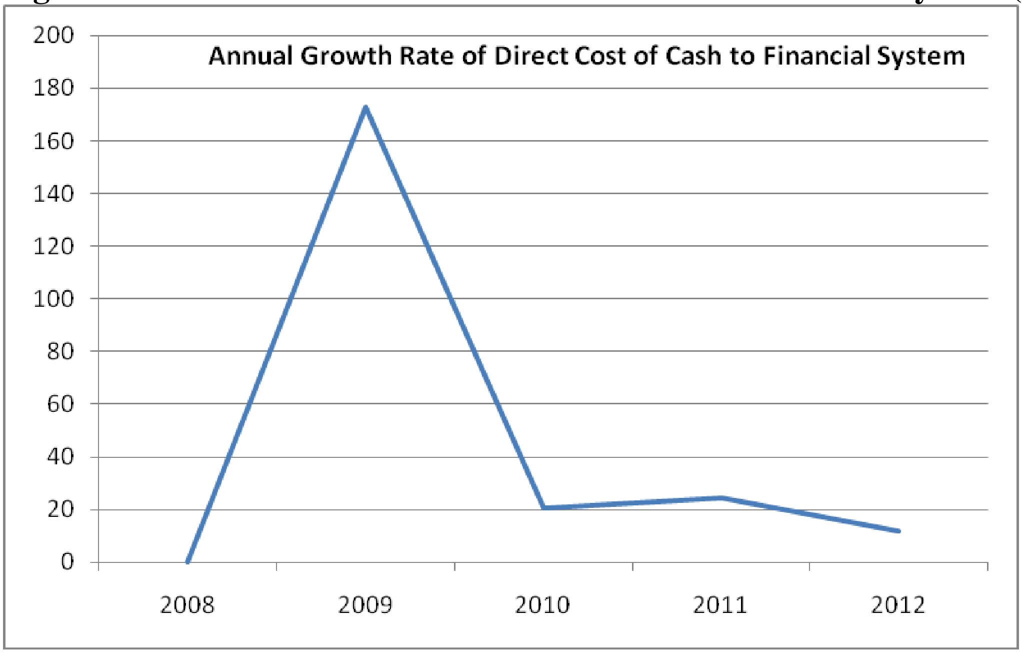
Source: CBN Cashless Stakeholders Session (2011b)

Figure 4.2: Cost of Cash to Financial System (2000-2012)



Source: CBN Cashless Lagos Implementations Stakeholders Session (October, 2011)

Figure 4.3: Growth Rate of Direct Cost of Cash to Financial System (2000-2012)



Source: CBN Cashless Lagos Implementations Stakeholders Session (October, 2011)

4.2 Implications and Consequences of the Cashless Banking Policy in Nigeria

The major negative consequences associated with the high usage of physical cash in the economy are:

- High cost of cash: There is a high cost of cash along the value chain - from the CBN and 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 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 and Corruption: High cash usage enables corruption, leakages and money laundering, amongst other cash-related fraudulent activities.

However, the cashless banking is expected to curb these consequences that have consequential negative implications on lending rate, investment level, and international money transfer among other associated problems. The introduction of the cashless banking in Nigeria has seriously economic and social implications among which are:

- Internet robberies and cash-related crime
- Inefficient treasury management due to nature of cash processing
- Non-compliance level of financial users
- Non-availability of equipments for effective implementation of the policy
- Transaction limits which might hinders investment level
- Unawareness of the programme
- High penalty charge
- Insufficient point of sales equipment
- Business limitations of traders and small scale enterprises
- Loss of job in the banking system

V. CASHLESS BANNKING IN NIGERIA: CHALLENGES

The Central Bank of Nigeria on April 28, 2011 announced its intent to implement a cashless policy for the Nigerian economy. The elements of that policy consist of a limit to daily cash withdrawals which can be made from Nigerian financial institutions, with those of individuals pegged at ₦1150,000 and corporations ₦1,000,000. As explained by the CBN, the policy was adopted to reduce the high usage of cash management as well as encourage the use of electronic payment channels. Although this policy has received criticism from some who argue that Nigeria was not yet ready for such policy, we are persuaded that it is a good policy.

However, while the cashless policy by itself is a noble thing, there are some problems with the apex institution setting of standards for Point of Sales (POS) equipments; and its selection of only four (4) manufacturers for the provision of POS terminals for the Nigerian market.

The first observation is that the involvement of the CBN in determining minimum standards that POS manufacturers must comply with calls into question the proper *role of the Central Bank of Nigeria.* The core function of any Central Bank of Nigeria (CBN) is to promote monetary stability and a sound financial system. Given that in the country there already exists institutions which set standards in respect of given products, the way the CBN not therefore usurping or appearing to usurp the functions of powers of these specialized agencies such as the Standards Organization of Nigeria (CBN) for all physical goods. In the context of the promotion of the rule of law, and the need for all institutions to operate within the confines of their statutory powers and not encroach into territories assigned to other agencies by law to avoid a free for all, there is a clear need to reappraise and ensure that the CBN, though well motivated, is not in the process undermining the role and powers of other institutions (Dimgba and Akinosun, 2012).

The second observation relates to the impact of the restriction of only four manufacturers for the POS market to the competition process—the primary concern of this intervention. In effect, by giving a licence to only four manufacturers and not throw it open to all POS manufacturers whose products comply with the standards, what the CBN has done has been to grant monopoly powers to only those four manufacturers in such a vital and potentially juicy market without a corresponding invention introduced into the market by those manufacturers – the only basis on which intellectual property laws grant monopoly powers to inventors. Is such a restriction in numbers necessary? Is it objectively justifiable? For a market as large as Nigeria, such a restriction in number of players is revolutionary, and with the greatest respect to the CBN, it is arguable that such a restriction, no matter how well intended, would cause harmful effect to the process of competition and to the dynamism which the competitive process brings to any market.

However, this form of monopoly tends to affect the effective operation of the cashless policy and even in meeting up with demands of financial services in the economy. In order words, a market in there are only four players is necessarily an oligopolistic market. It is an accepted fact within the competition law and policy that an oligopolistic market is prone to cartelisation and this might posed serious threats and hardship on Nigerians in performing financial transactions. Monopoly powers in the absence of a corresponding innovation are malign and unacceptable. The problem with oligopolistic markets as is being created by the CBN's fiat is that undertaking operating on most oligopolistic markets automatically emulate the economic effect of monopoly even in the absence of an agreement, or other explicit communication, to do so (this is known as "tacit collusion" or "tacit coordination"). In a normal competitive market, undertakings should determine their economic conducts and their price independently and non-collusively. Clearly it will be easier to align behaviour and not behave independently (as competition law and policy dictates) on some markets than others: for example, alignment is more feasible where there are fewer players on the market; the players are of similar sizes; their products are very similar (there is little non-price competition for the product); and their cost structures are similar.

Normally, given the pernicious effect of cartels to the competitive process, antitrust agencies or competition authorities, the world over are ever on the alert to detect any cartel arrangements and to bust them. Oligopolies are therefore discouraged because of their tendency to result in cartelisation. However, the concerns that arise from the hard fact of the existence of only few firms and resulting tendency towards cartel behaviour is addressed by the powerful concerned authorities available to competition authorities and antitrust agencies under existing national or regional competition laws, as the case may be. The problem here is that Nigeria is yet to pass a competition law and create a competition enforcement agency. Therefore, if the four manufacturers of the POS equipment selected by the CBN were to engage in anti-competition arrangements as the demand might dictates the most likely would, this would not be illegal since there is no competition law that proscribes those conducts, no matter how much they hurt the Nigerian economy.

On this basis, it is better to prevent this problem from occurring at incipiency, than waiting for it to occur first and only watch helplessly when it is too late to do anything.

In conclusion, on the basis of the foregoing, it is proffered that without prejudice to the reservations expressed as to the capacity and legal permissiveness of the CBN undertaking physical products certification and standard setting functions (as opposed to financial products thus necessitate the need for collaboration with other agencies), even in the presence of arguably more legally qualified institutions such as Standards Organisation of Nigeria (SON). It is important to liberalise the POS market from incipiency and lift the monopoly powers which the CBN has conferred on only four manufacturers without any convincing objective justification.

VI. CONCLUSION AND RECOMMENDATIONS

The overview of the structure and operations of the first pilot project of the cashless banking in Nigeria as the main aim of this paper has informed us of the following conclusions of the challenges posed by the policy. Therefore, there is need for increasing availability and reliability of alternative payment channels; as well as ensuring effective settlement cycles; ensuring appropriate options to enable addition of "new entrants" into the banking system (e.g. KYC requirements); educating and creating awareness amongst consumers, merchants, other stakeholders; instituting a framework to ensure monitoring and compliance of policy; mitigate risks; as well as assess the impact on economy and industry cost-to-serve.

However, as the CBN implements the Nigeria cashless banking, we however proffered the following factors consideration for effective operation and timely achievement of the cashless policy goals:

- **Power**: Power must be improved dramatically to accommodate for smooth operations of financial activities
- **The state of Infrastructure**: The financial infrastructure in Nigeria is not adequate to carry the load of a cashless society, ATM's, Point of Sales system, mobile banking and other mediums have to dramatically expand to touch at least 40% of the whole economy before any meaningful effect can be achieved
- **Availability of real data**: Proper and accurate identification of account holders must be maintain and shared when necessary by all financial institutions; also CBN must collaborate with all other government and private agency responsible for collection of Identification of individuals in Nigeria for reconciliation of any identification.
- **Investments**: CBN must be ready to invest heavily to make these transition possible, Technology is not cheap and ever changing at a very fast pace. Investments in billions of dollars made in infrastructure, training, marketing, security, maintaining it networks on soon will be on a yearly basis for the years to

come and should be a collaboration of efforts by all invested parties.

- **Security**: As it relates to laws that are need to enforce new methods of transactions and a changing culture, the CBN must partner and work with the National Assembly to ensure proper legislation is been formulated. Enforcements of new legislation would be carried by the CBN and all other executive arms that are empowered such as the EFCC. They must commit to training of personnel and the judiciary must be prudent and up to the task. Another major concern would be the risk involved, because if the process is rush and the economy losses confidence i the system due to high level of fraudulent activities, it will be devastating to the Nigeria economy.

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