What does the CBN’s Cash-less policy mean for financial inclusion in Nigeria?

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Introduction

Increasing numbers of countries have adopted policies to accelerate the use of electronic channels and reduce the use of cash. The motivations for these policies vary: many are primarily concerned with reducing tax evasion, some with fighting crime, and a few are now explicitly linked to financial inclusion – though the latter link is not necessarily immediately nor automatically achieved.

In Nigeria, the Central Bank of Nigeria (CBN) announced its Cash-less[2] policy in 2011 and commenced a pilot of the policy in Lagos State in April 2012. The policy, intended to reduce the use of cash, is in fact a package of measures, as summarised in Box 1 below, with three key stated objectives:

1. To drive the **development and modernisation of the payment system** in line with Vision 2020.
2. To **reduce the cost of banking services 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.

Box 1: What is the CBN's Cash-less policy?

The Cash-less policy consists of a package of measures directed at achieving the objectives above. The measures below have been piloted in Lagos State starting in 2012 to test the policy's readiness for national rollout:

1. *Promoting awareness* through market education and sensitisation: this is done directly by the CBN and by banks, separately and in conjunction, through high profile messaging in all forms of media including an informational website (http://cashlesslagos.org/).
2. *Implementing a cash processing fee:* in Lagos State, from April 2012, all individuals and corporates (other than specified exemptions) have to pay a processing fee to their banks for cash deposits and withdrawals in excess of stated thresholds (NGN500,000 and NGN3m, respectively). The fee ranges from 2% to 5% of the amount exceeding the threshold.
3. *Changes in how cash can be handled by banks:* from 31 December 2011, only CBN licensed cash-in-transit companies are allowed to collect cash from clients in Lagos State, Federal Capital Territory (FCT), Port Harcourt, Kano and Aba.
4. *Implementation of POS Guidelines from 2011:* the CBN's point-of-sale (POS) guidelines, published in 2011, have a broad impact across the structure of the payment card market, inter alia, (i) capping the maximum merchant service commission that acquirers can charge merchants at 1.25% or a maximum of NGN2,000; (ii) limiting the role of connecting and maintaining POS devices only to licensed Payment Terminal Service Providers (PTSPs); (iii) restricting the ability of merchants to charge customers for paying with cards. The POS guidelines apply nationally, but Lagos State has seen the biggest impact since most POS have been deployed there. POS deployment targets were set at 40,000 by December 2011, 75,000 by June 2012 and 150,000 by December 2012.[3]

Sources: CBN Banking & Payments System Department; http://www.cbn.gov.ng/cashless/

[1] Written by BFA for EFInA.
[2] Meaning less cash, not without cash.
[3] These targets were provided by the CBN Banking and Payments System Department.

Financial inclusion is thus a distinct component of the CBN's second Cash-less policy objective, in conjunction with reducing banks' cost to serve. However, other than the implicit assumption that lower banking costs will make banking services more affordable, the initial policy measures outlined in Box 1 do not immediately appear to directly drive financial inclusion. For instance, the current threshold for cash deposits and withdrawals above which individuals must pay a fee, set by the CBN at NGN500,000 per day, is several times the annual income of most Nigerians, so that few individuals have been directly affected by it.[4] Similarly, the connection between rapid POS deployment in Lagos and inclusion is not self-evident: only a minority of Nigerians overall today has a bank account with a card linked to it (see Figures 1 and 2), hence is able to make a cash-less purchase using a card at point of sale.

So, how is the Cash-less policy relevant for financial inclusion in Nigeria; and how can its effect on financial inclusion be maximised? This paper sets out the context of financial inclusion in Nigeria and considers evidence of the link between other countries' approaches to reducing the use of cash and financial inclusion to answer these questions.

Financial inclusion in Nigeria

The CBN launched its first National Financial Inclusion Strategy in October 2012.[5] In line with international precedents, the CBN defines financial inclusion as follows:

"Financial inclusion is achieved when adults have easy access to a broad range of formal financial services that meet their needs and are provided at affordable cost. Financial inclusion implies not only access but usage of a full spectrum of financial services including but not limited to payments, savings, credit, insurance and pension products." (CBN 2012: 1)

Further elements of the new strategy and how they touch on the Cash-less policy and its objectives are provided in Box 2 below.

Box 2: What is the CBN's financial inclusion strategy?

The CBN's National Financial Inclusion Strategy (CBN 2012) maps the current landscape of financial inclusion in Nigeria by category of financial service (distinguishing payments, credit, savings and insurance). It draws on EFInA's Access to Financial Services in Nigeria surveys (A2F) to profile the financially excluded by demography, geography and barriers to access. The Strategy commits to reducing financial exclusion to 20% by 2020. It aims to achieve this through a range of coordinated interventions, such as tiered KYC, agent banking and mobile money.

Payments are clearly seen as the backbone of the strategy. The CBN has set a headline target of 70% of adults using formal payment services by 2020. The Strategy also sets targets for channel infrastructure deployment, such as (i) increasing the number of point of sale (POS) devices deployed to 850 per 100,000 adults by 2020, a compound growth rate of 55% compared to 2010 (CBN 2012: Section 6.2); and (ii) increasing the number of agents to 62 per 100,000 adults by 2020 (CBN 2012: Section 6.2).

The strategy mentions the Cash-less policy (as well as e-banking and e-payments) as an area of current regulation which is relevant to the achievement of financial inclusion (CBN 2012: Figure 10, pg.11), but does not articulate in any detail how the Cash-less policy promotes inclusion.

[4] Not surprisingly, a recent representative survey of consumers in Lagos found that fewer than 6% had deposited or withdrawn over this amount since the policy went into effect (EFInA Cash-less Lagos Survey 2012 conducted by NOI on a representative sample of 500 consumers in Lagos State, September 2012).

[5] Central Bank of Nigeria, *National Financial Inclusion Strategy,* 2012.

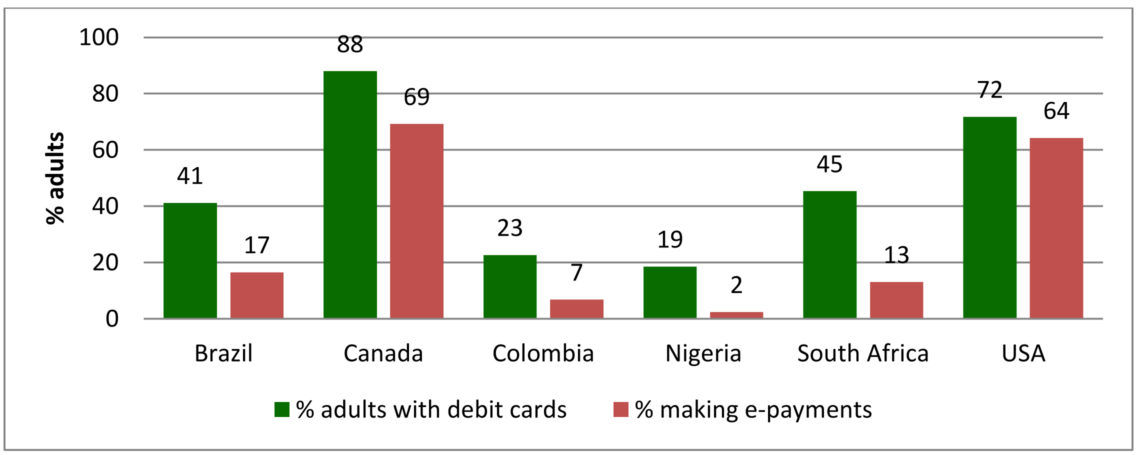
Achieving financial inclusion in the payments sector is a two-step process:

- First, excluded people must have an account at a regulated financial institution that allows them to store electronic value. The account might be a bank account, m-wallet or other form of e-value storage.
- Second, people must be able to use their account at a regulated financial institution to initiate or receive electronic transactions, beyond simply withdrawing cash at an ATM.

According to the Global FINDEX 2011 survey, around one-third of Brazilians and South Africans with debit cards use e-payments, compared with one in ten Nigerians: the 2% of Nigerian adults who currently make e-payments represents a small fraction of the 19% holding debit cards (which is used as a proxy for a type of account more likely to provide e-payment functionality); see Figure 1 showing comparative figures from 2011 of the proportion of adults with a debit card and the proportion who say that they use e-payments from a range of countries (including two used in CBN's National Financial Inclusion Strategy benchmarking—Brazil and South Africa).

Similarly, data from EFInA's Access to Financial Services in Nigeria 2012 survey (A2F 2012) highlight Nigerians' limited adoption of electronic payments and services to date, with 0.7% of banked adults using POS terminals, 0.8% of banked adults using the internet, and less than 2.5% using mobile phones for banking transactions.

Figure 1: Nigeria in context

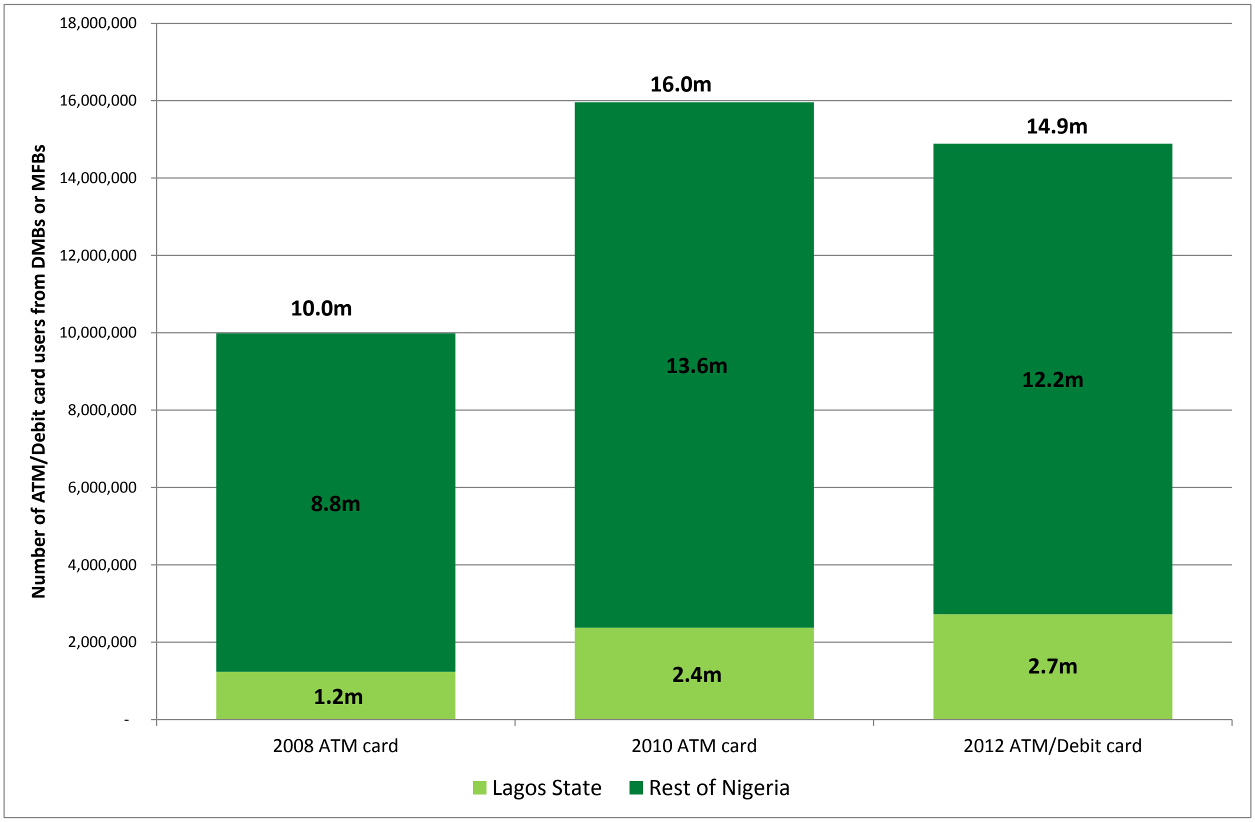


Source: Global FINDEX 2011, World Bank

Though the number of users of electronic payments among Nigerians today is low, the trend must be seen in perspective. Figure 2 shows the number of adults nationally and in Lagos State that used an ATM/debit card in 2012. The absolute number of people with ATM/debit cards has risen substantially since 2008, although it declined between 2010 and 2012 outside of Lagos State due to the rollout of EMV cards in this period (this meant that existing cards were withdrawn and not all were replaced). Though ATM transactions are largely still cash withdrawals, the rising trend signals Nigerians' growing comfort with the use of cards. However, the Cash-less policy will have limited effect on the nearly 60%

of the Lagos adult population that did not use an ATM/debit card from either a deposit money bank or microfinance bank in 2012.[6]

Figure 2: ATM/Debit card users (from a deposit money bank or microfinance bank) in Nigeria: 'Have it now and use it'



Source: EFInA Access to Financial Services in Nigeria 2008/2010/2012 surveys

The growing comfort with using ATMs, however, does not lead to increases in purchases using cards at POS terminals: at the end of October 2012 only 20% of the more than 106,000 deployed and connected POS terminals were actively used; and the number of transactions per active POS more than halved from May to October 2012.[7]

Yet, the number of Nigerians using a card of any type - ATM, debit or credit - alone will not capture the universe of users of e-payments which, for instance, also includes mobile wallet accounts. Though still nascent in Nigeria, since mobile money operators (MMOs) began issuing mobile wallet accounts in January 2012, EFInA's Access to Financial Services in Nigeria 2012 survey shows some 500,000 adults say they registered for the service and use mobile money; of those, 31% pay bills with mobile money, 38% receive money, 49% send money and 58% top-up airtime.[8]

[6] EFInA Access to Financial Services in Nigeria 2012 survey.
[7] CBN / PTSA Weekly Data (note: volumes and values are for all of Nigeria).
[8] EFInA Access to Financial Services in Nigeria 2012 survey; note that MPSOs reported more than 2 million registered users by October 2012.

Financial inclusion ultimately requires that consumers have multiple channels to initiate and receive electronic payments. Moreover, while much of the emphasis of the Cash-less policy to date has been on supply side measures - like rolling out POS devices - the low usage of POS by cardholding customers underlines the need to consider the customers' demand for paying with cards as well as merchants' commitment to connecting and using POS terminals.

For now, therefore, it is fair to conclude that the Cash-less policy has had no direct impact on financial inclusion in Lagos State. But it is also unrealistic to expect that the policy, which must naturally focus on larger cash flows first, would have had any impact at such an early stage. The question is rather whether, and if so, how the policy is likely to have a positive impact on financial inclusion in time. We will return to this after considering the wider context in which Nigeria is embarking on this approach.

International pathways to digital financial inclusion and situating Nigeria

A recent White Paper from the newly formed Better than Cash Alliance (BTCA)[9] has reviewed the available evidence on how increasing electronic payments connects to the wider policy agendas of governments, businesses and donors.[10] While there is general evidence of an inexorable drift towards more electronic payments worldwide, driven in part by better and more ubiquitous mobile connectivity, governments in some countries are increasingly making concerted efforts to accelerate the trend. Box 3 below outlines a range of pull (incentive-based) and push (mandate-driven) measures which have recently been adopted in various places.

Nigeria is one of a number of countries on the journey towards what the BTCA White Paper describes as an "inclusive cash lite society": one in which the majority of all payment transactions become electronic but in which cash continues to co-exist, though increasingly at the margins of economic life. Only a few developed countries such as Sweden, the Netherlands, Canada and the United States have passed the threshold to being "inclusive cash lite" and only in recent years; Canada, for instance, reached the 50% tipping point in 2010.

Box 3: International approaches to encourage electronic channels

Persuaded by expected benefits such as more efficient e-payments and, especially, reduced tax evasion on cash purchases, governments around the world have adopted a range of different 'carrots' and 'sticks' to encourage consumers to make greater use of electronic payments.

Common incentives (or 'pull' strategies) have included:

- **Tax refunds:** for consumers on debit and credit card purchases in places like:
  - Korea (1999 →) which offers income tax deductions for portions of credit and debit card spending above income thresholds; and
  - Argentina (2002→), Colombia (2004→) and Uruguay (2006→) which offer rebates on VAT rates for card use in certain sectors.[11]
- **Lotteries:** which reward consumers proportional to their usage of payment cards:
  - For example, Mexico started (2003→) a high-profile lottery - El Boletazo - to promote payment card usage among consumers.

[9] See BFA (2012) *The Journey Toward 'Cash Lite': Addressing Poverty, Saving Money and Increasing Transparency by Accelerating the Shift to Electronic Payments*, BTCA White Paper written by BFA, http://betterthancash.org/wp-content/uploads/2012/09/BetterThanCashAlliance-JourneyTowardCashLite.pdf

[10] BFA (2012).

[11] http://www.paymentsnews.com/2006/05/visa_spotlights.html

- **Tax subsidy:** for providers to encourage deployment of POS devices:
  - Mexico (2005-2008) passed an incentive scheme which allowed accelerated tax deductions to banks which deployed new EMV compliant point of sale machines; and the banking sector set up a specialised trust (called FIMPE) to manage joint procurement of devices under the scheme and acquiring small value merchants (such as taxis), which banks themselves did not find viable.

Governments have also adopted **push strategies**, relying on the power to mandate:

- For **government payments**: a 2010 Mexican presidential decree required that all government agencies make all disbursements electronically by December 2012. Since 85% of the 5.8m beneficiaries of the major Mexican government conditional cash transfer programme, Oportunidades, were paid cash in 2010, this has required rapid roll out of new pre-paid debit cards and accounts, as well as the rollout of bank agents to serve areas where clients are situated. With the deadline just passed, it is not yet clear that the target has been reached in full.[12]
- For **other payments**: cash strapped governments, especially in Europe, have in the past few years imposed bans and limits on the use of cash above defined thresholds. Some examples:
  - Greece (2011): banned cash transactions over €1,500
  - Italy: eliminated cash payments over €1,000
  - Spain (April 2012): placed limits on the use of cash for large-scale transactions.

Source: Porteous (2012)

Based on the experiences of a number of countries, the BTCA White Paper laid out a typical journey from the first stage of "cash heavy", where Nigeria and many other developing countries are today, through a sequence of other stages to "cash lite", shown in Figure 3 below. Typically, the first step has been to convert bulk payments, such as salaries and government payments to electronic payments. This is easier to do: (i) since bulk payers like government bodies and corporates are usually few relative to individuals in an economy, and (ii) the business case for shifting to electronic is usually quite strong around cost reduction, better accounting and lower leakage or fraud. Increasing numbers of countries now encourage or insist that salary payments by governments or larger corporates are made directly into bank accounts.

Figure 3: Stages and shifts

Source: BFA (2012) *The Journey to Cash lite*, BTCA White Paper

Note that before the introduction of the formal Cash-less policy, CBN published draft "Guidelines for the electronic payment of all forms of taxes at all levels of government" which would seek to address Stage

[12] Fletcher School/BFA case study 2011.

1. However, it is not clear that these have been applied fully in practice yet.[13] Similarly, the CBN implemented a policy requiring all private and public organisations with more than 50 employees/pensioners to be paid through electronic payments.[14] To what extent this has been enforced is not known. The bulk payer transition of Stage 1 is not yet introduced for all levels of government in Nigeria.

However, if the journey stops at Stage 1, then all that may be achieved is to re-route cash away from government or company premises into banking halls and ATMs: after the initial monthly electronic transfer, the recipient quickly withdraws all or most in the form of cash to spend it. Nigeria may risk this fate, given their trust foremost in cash, illustrated by survey data as cited earlier: that Nigerians consider bank tellers and ATMs to be the most important methods of transacting with their banks and less than 1% of banked adults consider POS, mobile phone or internet to be the most important method.[15]

Nigeria's Cash-less policy to date focuses primarily on discouraging large cash flows into and out of banks while promoting an increase in one type of electronic payment especially: card purchase at POS, demonstrated by the push for great POS deployment. This is one of the typical Stage 2 approaches.

In order to get to a cash lite society (Stage 3 above), individuals and merchants need both the capability and the incentives to initiate and receive e-payments beyond salaries or benefits alone. Few developing countries have broken through to this stage: a recent exception is Kenya where the advent of ubiquitous mobile money has meant that a far higher proportion of Kenyan adults initiates and receives electronic payments (using mobile phones) than elsewhere. In Nigeria, 0.3% of adults reported sending or receiving money via mobile phone in the last six months,[16] though taking into account that mobile money services in Nigeria was only launched in 2012.

The stages help to define the roles of different payers such as governments, businesses or individuals at different times. Another way to capture the payment landscape uses the payment grid in Figure 4 below, depicting the payment types which result from different combinations of payer and payee.

[13] In the most current edition of the World Bank Global Payment Survey of 2010, section on government payments, Nigeria's self-response was that P2G payments for taxes and utilities were mainly or all in cash, while B2G payments were electronic. (See World Bank Global Payment Survey of 2010, Table III.22).

[14] http://www.cenbank.org/OUT/2012/CIRCULARS/BSPD/CIRCULAR%20TO%20ALL%20DEPOSIT%20MONEY%20BANKS.PDF

[15] EFInA Access to Financial Services in Nigeria 2012 survey.

[16] EFInA Access to Financial Services in Nigeria 2012 survey.

Figure 4: The payment grid

Payer		Payee: Government	Payee: Business	Payee: Person (Individual)
Payer	Government	**G2G** budgetary allocations, funding of programmes	**G2B** grants, payments for goods and services	**G2P** welfare programmes, salaries, pensions
Payer	Business	**B2G** taxes, fees for licenses and permits	**B2B** payments for goods and services in value chains	**B2P** salaries and benefits
Payer	Person (Individual)	**P2G** taxes, utilities	**P2B** Purchases	**P2P** remittances, gifts

The focus of Nigeria's Cash-less policy to date has been on the areas shaded in light green above: by making individuals and businesses pay more for high cash usage and by encouraging card payments at POS terminals, as a means of paying for goods (P2B). There is some current anecdotal evidence about how large businesses have adjusted their collection and payment policies (in the B2B and B2P cells of the payment grid above) in response to the processing fees.[17] No comprehensive data is, however, available for Nigeria to inform about what is happening around these important and large flows with businesses at the centre; and the absence of data on how businesses pay, up and down their value chain, is a gap in payments research in general.[18]

By focusing much of the attention and effort to date on POS deployment, the Cash-less policy in Nigeria is in fact tackling one of the hardest cells in the grid to convert to electronic: P2B is hardest because it depends on decentralised decisions being taken in a wide range of circumstances (such as remote/face to face, large/small purchase) by millions of consumers and merchants; and they tend to be least susceptible to direct influence by commercial banks, let alone central banks.

How is financial inclusion linked to the Cash-less policy?

Why would a country wish to pursue the "journey to cash lite"? Similar to the advantages mentioned in the Cash-less Lagos website, the BTCA White Paper lays out many benefits to governments, citizens and national economies which go hand-in-hand with more electronic payments: these include more transparency, less corruption (especially in government payments) and lower transaction costs which may lead in time to higher economic growth. However, does the pursuit of Cash-less policies also lead to more financial inclusion, or is financial inclusion rather a pre-requisite for cash lite? The causality has

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[17] Through structured interviews with banks and some larger merchants conducted as part of the Cash-less Lagos Survey 2012.

[18] See recent efforts to fill the gap in Canada by the Canadian Federation of Enterprises (2011); and in Kenya by Mas & Ngweno (2012) and Higgins et al (2012).

been little studied to date. However, there is a clear correlation between the proportion of electronic transactions in a society and the proportion of people banked: in cash lite societies like Canada, for example, almost everyone is banked: 96% of adults have an account at a formal financial institution, and even for the poorest quintiles of the population, this proportion drops only to 93%.[19]

However, correlation does not establish causation. While it is obvious that achieving cash lite status requires greater financial inclusion - without this, the majority of people would not be able to transact electronically - it is less clear that reaching high levels of financial inclusion requires policies to promote cash lite. However, there are four channels through which Cash-less policies might be expected to promote financial inclusion over time:

- Changing the business models of providers
- Making payment infrastructure more available and affordable
- Increasing awareness of electronic channels
- Enhancing the customer value proposition to use formal financial services

- *Changing the business models of providers and taking financial services closer to the customer:* Financial inclusion will only advance at large scale if it can harness, not limit, the financial incentives of banks and other providers in the service value chain. Transactions conducted at a bank branch are expensive for banks: across a sample of large retail banks in developing countries, the cost per branch cash transaction ranges from US$1 to $3, compared with a cost per internet banking transfer which can be as low as US$0.03 to US$0.05.[20] Banks therefore have to pass on the cost of using these channels to customers, either by charging directly or by rationing access only to higher value customers. The only way in which banks will be able to serve low income customers sustainably will be through offering a range of electronic channels for customers to use. To be sure, all customers, low or high income, will continue to need access to cash, but this will have to be offered through alternative channels such as banking agents, where the cost per cash transaction can be brought nearer to US$0.30 to US$0.50.[21] That level is closer to the typical costs of an ATM withdrawal, but without the much heavier upfront capital investment required to deploy an ATM. To deploy agents requires a robust e-payment system which can handle real time transactions between agent and customer.

Nigeria has begun to change business models

- Prevalence of ATM cards has increased nearly 9-fold between 2008 and 2012 (see Figure 2).
- With its objective of reducing the cost of banking services, the Cash-less policy recognises the importance of harnessing the financial incentives of banks as well as customers in the service value chain.
- Nigeria's Cash-less policy has so far forced deposit money banks to re-consider their strategies to deploy electronic channels. To the extent that this enables banks to develop lower cost service offerings for transactions, in time this should also enable

[19] World Bank, The Little Data Book on Financial Inclusion 2012, p.42.
[20] On stylised costs per transaction arising from a sample of large banks in 5 developing countries, see BFA (2012) *GAFIS Focus Note 3: The impact of gateway dynamics on the business case for small balance savings.* April 2012. http://www.gatewaytosavings.org/cmsdocuments/GAFIS_FN3_ImpactofGatewayDynamicsonBizCase.pdf
[21] As for previous footnote, see BFA (2012) *GAFIS Focus Note 3: The impact of gateway dynamics on the business case for small balance savings.*

and encourage them to undertake more outreach to low-income customers.
- The CBN introduced agent banking guidelines in February 2013, citing promoting and deepening financial inclusion, as the main objective.

- *Making payment infrastructure more available and affordable:* Modern national payments system infrastructure has relatively high fixed costs in deployment and maintenance however with high volumes of transactions, the marginal costs of usage are low. Hence, once the initial investment is made, higher volumes translate into lower cost per transaction. It will thus be possible to extend the system – increasingly also to traditionally financially excluded areas – requiring low marginal cost to cover the much bigger volume of transactions, thereby favouring a transition to 'cash lite'.

Nigeria has gradually been improving its payment system
- With the Nigerian Cash-less policy and other initiatives, the CBN has already focused attention on the national payments infrastructure. For instance, Nigeria has recently consolidated and extended the activities of the national payment switch, Nigeria Inter-bank Settlement System (NIBSS), through which all card and mobile payment providers are required to connect. This infrastructure has to be fine-tuned to reduce error and failed transaction rates as the result of dysfunctional systems, networks or interfaces: NIBSS reported errors for on average one in five of total attempted transactions – of these failures, 40% were due to customer errors (e.g. exceeding withdrawal limits or insufficient funds available) while 51% were due to the system or network (e.g. issuer or switch inoperative, system malfunction or interoperability errors).[22] Provided that the infrastructure is robust and trusted by customers, it may be used more widely in future to extend banking outreach.
- In addition, improvements in infrastructure (including reliable and available mobile connectivity and electricity to power devices) are vital, yet are beyond the CBN's control. However, there are good reasons to believe that, over time, renewed investment in network infrastructure, such as is planned by major mobile phone companies, means that this will slowly improve, at least for key urban hubs in Nigeria.

- *Increasing awareness of electronic channels:* The process of raising awareness about the potential benefits of using electronic channels, as well as the safeguards necessary, has the qualities of a public good service. This means that it is likely to be under-supplied by banks and other providers who do not themselves capture all the benefits but have to incur the costs.

Nigerians awareness of e-channels is increasing
- Nigeria's Cash-less awareness campaigns are a core measure of the policy. These can help to overcome the potential market failure: By disseminating public messages and increasing awareness, providers should find it easier to market electronic services to unbanked customers as well as to those banked customers who do not use their accounts and e-channels.
- Already, around 63% of Lagos consumers interviewed were aware of the Cash-less policy, although they were typically vague about what it means. This included 39%

[22] Based on NIBSS data from the last week of each month from February to October 2012.

of the unbanked, which may make it easier for providers to engage with unbanked consumers in future.[23]

- *Enhancing the customer value proposition:* As long as the main use of a bank account is simply to receive at most one or two electronic payments each month which are then converted into cash at an ATM or branch, that account will not be 'daily relevant'[24] as part of daily life and may have a limited effect on financial inclusion beyond the percentage banked: the bank account then is at best simply a means of temporary storage of value, not of electronic payment or transactions. Moreover, the proposition to an unbanked person to take up an account may be limited, especially if it is inconvenient or expensive to get hold of their cash. However, if the value proposition extends to offering a range of simple, clear and affordable services which add genuine value, it is much more likely that unbanked customers will want to become banked. The types of electronic payment services which are clearly in demand in many places include, bill pay (P2B) and remittances (P2P). If e-payment options were extended to receive or make payments of certain types of common government transfers (e.g. social transfers or pensions), fees or taxes, this could further increase the benefits to consumers, such as saving time and costs by not having to get to or queue at payment points.

[23] Cash-less Lagos Survey 2012.
[24] In the words of Ignacio Mas (2012) who addresses how mobile money is not daily relevant either.

> Nigeria needs to enhance the customer value proposition
>
> - The data from the EFInA Access to Financial Services in Nigeria 2012 survey shows that bank accounts are typically a temporary cash repository: 68% of banked adults tend to perform cash withdrawals 0-2 times per month and 73% perform cash deposits 0-2 times per month with their main bank account, with only 5-15% of banked adults using their main bank account to deposit cheques, pay bills, complete electronic bank transfers or repay loans at least once a month.
> - Less than 1% of banked adults consider POS, mobile phone or internet to be the most important method of transacting with their banks, while 58% and 41% consider bank tellers and ATMs, respectively, to be their most important bank channel.[25]

These pathways linking electronic delivery to financial inclusion have been demonstrated in different ways and to different extents in other markets. The benefits accrue as a result of:[26]

(i) *Access to a basic stored value account* - to build lump sums for investment and self-insure against emergencies

(ii) *Electronic payment channels connecting poor people with other people* (especially family members) - to receive remittances or emergency payments

(iii) *Electronic payment channels connecting poor people with businesses and public or private institutions*, including government and utility companies in particular - to make payments for school fees, medical treatment or utilities and thereby reduce hurdles to accessing essential services or utilities; to receive social transfers or emergency payments from government programmes

(iv) *Access to enhanced bespoke financial services* – to have customised, available and relevant financial services such as savings or insurance due to reduced transactional costs and providers using payments data to profile and better understand their clients

These pathways show how policies to promote electronic payments can support financial inclusion. A nascent yet growing body of research goes beyond this link and documents how poor households may benefit from access to more electronic channels. For instance:[27]

- In Pakistan and Tanzania, branchless banking systems have brought considerably more transaction points to customers,[28] though their ubiquity, reliability and availability across the countries has not necessarily reached the level of trust and ubiquity such as M-PESA's in Kenya.
- In Kenya, a study found that, four years after the launch of M-PESA, more than 70% of Kenya's poor and unbanked households have at least one M-PESA user.[29]

[25] EFInA Access to Financial Services in Nigeria 2012 survey.
[26] Benefits adapted from Radcliffe and Voorhies (2012).
[27] See Radcliffe and Voorhies (2012) and BFA / BTCA White Paper (2012) for select examples and further references.
[28] Radcliffe, Daniel and Voorhies, Rodger, A Digital Pathway to Financial Inclusion (December 11, 2012). Available at SSRN: http://ssrn.com/abstract=2186926 or http://dx.doi.org/10.2139/ssrn.2186926
[29] Jack and Suri (2012), "M-PESA extends its reach," *Mobile Money for the Unbanked Blog Post.*

- In Kenya, research has also shown how pervasive access to fast, safe remittances using mobile money help to cushion vulnerable families following shocks like health emergencies or disasters - since they are able to receive support from family quickly and cheaply.
- In Niger, a random control trial showed that women receiving food security benefits through mobile money reduced their travel from 4km to 0.9km by accessing their money from their phones through an agent.[30]
- Similarly, a study of a government programme in Colombia that provides payments to poor households through bank accounts illustrated time savings of recipients: once they began receiving electronic payments, they waited for up to five hours less to get their money compared to the time it took to receive cash payments.[31]
- In Haiti, beneficiaries of a recent pilot programme that provides workfare payments by mobile money transfer have found the electronic payments to be safer than cash, in part because of the improved confidentiality.[32]
- In India, an assessment of government-to-person payments estimated that linking every household to a digital payment system and automating the government payments could provide low-income households with government benefits, while saving the government up to $22 billion per year.[33]

While still rather glimpses of impact and often quite confined to relatively small groups, the pathways and international examples provided above suggest that there is indeed reason to believe that the Cash-less policy in Nigeria can have a positive, reinforcing effect on financial inclusion in time. However, none of these linkages are automatic or guaranteed. It is possible, for example, that, if the Cash-less policy is introduced in a way which reduces consumer or merchant confidence in the use of electronic channels, then it could have the reverse effect: setting back the acceptance of electronic payments. Therefore, the positive link of the Cash-less policy to financial inclusion should not be taken for granted but carefully assessed over time, and measures need to be taken to maximize the inclusion effect.

How to maximise the financially inclusive effects of the Cash-less policy?

The Cash-less policy may achieve some of its objectives such as modernising the payment system and stabilising monetary policy while having only a limited impact on financial inclusion. Achieving inclusion as well as less use of cash requires that Nigeria is successful in introducing and maintaining a suite of electronic payment products which are accessible at a low price and, even more importantly, trusted and valued by customers, businesses and all levels of government. Therefore, we consider in this final section how best to ensure that the Cash-less policy in Nigeria does indeed attain its objective of also promoting financial inclusion. We propose several measures, building on the current approach.

- *Sequence additional measures on the payment grid:* The earlier analysis has suggested that the current pilot of the Cash-less policy is tackling head on one of the hardest cells on the payment grid,

[30] Aker, Boumnijel, McClelland and Tierney (2011), "Zap it to me: The short-term impacts of a mobile cash transfer program." Centre for Global Development Working Paper #268. Citation from: Radcliffe and Voorhies (2012).

[31] CGAP (2012), "Social Cash Transfers and Financial Inclusion: Evidence from Four Countries." CGAP Focus Note 77. February 2012. http://www.cgap.org/sites/default/files/Focus-Note-Social-Cash-Transfers-and-Financial-Inclusion-Evidence-from-Four-Countries-Feb-2012.pdf

[32] B. MacDonald. (2012). Banking with mobile phones in Haiti: a report on a T-Cash pilot project. Baltimore: Catholic Relief Services. Citation from: BTCA (2012).

[33] McKinsey & Co. (2010), "Inclusive Growth and Financial Security: The Benefits of E-payments to Indian Society." Citation from: Radcliffe and Voorhies (2012).

using one main approach (card payments at POS terminals). This has limits on its inclusive potential because of the costs of POS deployment and the current low levels of card adoption by consumers. More impact on inclusion in the medium term may come by widening the angle of the policy focus to payments by government and business to excluded people; that is, by sharpening the focus on larger payers where more money can be "born electronic", rather than trying to get people to turn cash to electronic value via retail channels like merchants alone. **This means that the CBN should take a more active approach to monitoring the implementation of the current guidelines for salary disbursements and government tax collections at the state and local levels, linked to, or even prior to, any roll out of the current Cash-less policy.**

- *Actively promote mobile money:* Clearly, an inclusive approach to Cash-less cannot rely on card-based solutions - and especially use at POS terminals - alone; it must also rely on deploying card-less channels for payments, such as mobile money. The importance of this wider approach is already recognised in the CBN Financial Inclusion Strategy. To date, mobile money has been slow to develop in Nigeria, with the first products launched only in January 2012. EFInA's Access to Financial Services in Nigeria 2012 survey found that less than 1% of Nigerian adults have registered for mobile money, and four in five among them reported "having or using bank products or services."[34] This signals that mobile money may more likely be just another channel for already banked people rather than a route to the unbanked. **The CBN should consider reviewing the current mobile payments framework, learning from the experiences of the past three years of licensed pilots and rollouts, to establish what the barriers are to scale.** As developing and scaling up agent networks has been an issue in other countries looking at mobile money to enhance financial inclusion, the CBN has actively addressed this with its recently published agent banking guidelines. Similar to the mobile payments framework, the CBN should consider appraising and reviewing its agent banking guidelines from time to time to remain an active promoter and protector of multiple electronic channels.
- *Consider the small business as another route to inclusion:* The analysis above has suggested that further analysis of how payments are made by and between large and smaller businesses down the value chains of procurement and distribution would be worthwhile. Indeed, it is possible to speculate that it is this B2B cell on the payment grid which offers the most potential for influence in the short to medium term - and not only through merchants who deal with the general public, but all those small businesses dealing with larger enterprises for whom going cash-less in response to the cash processing fee may now be a priority. Although the CBN's current definition of financial inclusion primarily focuses on individuals access to financial services, small businesses, especially informal ones which are legally no different from the adult sole proprietors, are also an underserved, often excluded group. **The CBN should consider monitoring the effect of its Cash-less policies on small formal and informal enterprises, much as EFInA's Access to Financial Services in Nigeria surveys monitor individual levels of financial inclusion, to understand how B2B might more easily facilitate increased electronic payments in Nigeria among those typically transacting in cash.**
- *Consider the incentives for customers:* Financial inclusion cannot be forced on people. While they may be forced by government or employers to receive salary or benefits in a particular way, once they have received it, they will ultimately manage it using instruments which they know and trust. Consequently, it is very important that the Cash-less messaging to individuals going forward stresses

[34] EFInA Access to Financial Services in Nigeria 2012 survey.

the issue of benefits and incentives more, and less the issue of additional fees, since the latter are perceived (and even described in interviews with consumers) as 'penalties.' While messaging is presently targeted at getting already banked people to use their cards, the message could evolve to targeting people who do not yet have accounts, and propose ways to acquire them. In this way, **the Cash-less awareness campaigns could be linked to, and even become, a focal point of the financial literacy and capability exercises which are proposed as part of the National Financial Inclusion Strategy.** It is more likely that targeted campaigns around available products, rather than vague general literacy initiatives, will succeed better in promoting uptake and usage.

- *Build trust through effective consumer protection that supports payments:* Nigeria is at an early stage in the development of electronic payments. There are currently limited and inadequate means of resolving disputes over payments across institutions (and maybe within as well, but that is more a concern of individual banks). As e-payments inevitably grow in the years to come, so will the need for suitable mechanisms for addressing customer queries and resolving disputes - such as at which stage did the payment fail and which entity is liable for return of funds - will become vital. The likely volumes of future disputes will require a new generation of dispute resolution infrastructure for electronic payments; existing dispute resolution mechanisms are likely to be unable to process volumes efficiently or to allow for the risk-based application of rules. Large e-commerce firms like eBay and Amazon, for example, have flexible dispute resolution mechanisms so as to quickly resolve first time complaints, in order to build trust. The dispute resolution infrastructure can also keep a record of complainant and complaint so that (i) institutions most at fault can be investigated and penalised on a risk weighted basis; and (ii) the probability of any complainants' future claims being truly genuine can be assessed and subjected accordingly to heightened scrutiny. This type of trust-building mechanism has been developed in the world of e-commerce (around sites like eBay which could not rely on traditional rules for dispute resolution) but have not yet been implemented in the financial sector. **The CBN and EFInA should support the implementation of effective systems that can handle the demanding task of fair and quick dispute settlements. If the government delays designing and supporting adequate dispute settlement systems, problems may multiply, this could lead to customers' losing trust and therefore slowing down the adoption of electronic channels.**

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