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Aigboje AIG-Imoukhuede
Access Bank PLC, Nigeria

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PROMOTING THE USE OF NON-CASH PAYMENT ALTERNATIVES IN NIGERIA

By:

AIGBOJE AIG-IMOUKHUEDE
MD / CEO Access Bank Plc



AIGBOJE AIG-IMOUKHUEDE

Introduction

The payments and settlement system represents the platform upon which financial resources is exchanged for goods and services. It plays a critical role in the development of any modern market economy and in the emergence of a strong financial services sector. In the evolution of trade and commerce as a human economic activity, barter, which is an exchange of one type of good for another, transformed into the use of currency (in its crude form) as a means of payment. This has subsisted for centuries, cutting across cultures, peoples and boundaries. In Nigeria, cash as a means of

payment has always been and remains the most widely used in the settlement of commercial transactions. It is noteworthy however, that the last ten to fifteen years, the proportion of cash to non-cash in effecting payments has reduced in favour of non-cash alternatives.

This has been largely due to the contribution of the Central Bank of Nigeria in collaboration with banks as well as divergent stakeholders, in developing a framework and necessary infrastructure for a gradual but steady migration from cash to non cash payment modes.

Cash has gained so much acceptability and use because of the following advantages:

i. Of all payments modes, perhaps only cash provides the most immediate or instantaneous evidence of value exchanged or which requires no further confirmation. It is from this attribute that the popular saying "cash is king" was derived.

ii At the retail end of transactions which forms the biggest stratum of the commercial/business structure, cash does not require any major infrastructure or expensive technology in other to be exchanged.

2. Downsides Of Use of Cash as a Mode of Payment

Though popular and widespread in use, cash as a mode of payment has considerable disadvantages.

- i. It is expensive to mint (security features, quality of paper and ink for attractiveness, uniqueness and durability).
- ii. It is expensive to keep, transport or carry.
- iii. It is risky to keep in non customized facilities and to transport.
- iv. It carries an inherent risk of counterfeiting.
- v. It's handling, sorting and storing is time consuming, energy sapping and expensive.
- vi. It is unsafe to keep, carry and store, and presents personal security risk of grave consequence to handlers.
- vii. Cash has anonymous identity, when stolen, it is neither identified nor incontrovertibly linked to a particular owner.

3. Non-Cash Alternative Modes of Payment

Having discussed the advantages and disadvantages of cash as a payment mode, it is imperative at this point to identify non-cash alternative modes of payment and the advantages they offer.

3.1 Cheques

The oldest and most generally used non-cash payment mode is cheques (paper money). These are paper instruments that are negotiable, drawn on a bank and made payable to a named beneficiary or bearer. Examples include personal cheques, banker's or manager's cheques, warrants e.g dividend or coupons e.g bond interest, etc.

The use of cheques raised the standards of the payment and settlement system as it mitigates many of the disadvantages of cash. it nevertheless has a major drawback in the gap

that exists between receipt of instrument and receipt of value.

It must be stated here that with the bold steps taken by the Central Bank of Nigeria (CBN), Nigeria Inter-Bank Settlement Systems (NIBSS) and their collaborators, the clearing days have progressively reduced over the last ten years.

3.2 Electronic Transfers

Another noncash payment mode is Electronic Transfers. These are intra or inter bank transfers from one party to another which are effected from one account to another via electronic means. It is used for both local and international settlements. It remains the most efficient and widely used medium for cross border settlement. They are effected through telecommunication switches that act as intermediaries between all the institutions that subscribe to such switches.

In this mode, local settlements take place same day or within 24 hours while international settlements are done within 48 hours on the average. Examples of institutions that provide these services include, NIBSS, Inter-switch, Card Technologies, Value Card and SWIFT (Society for Worldwide Interbank Financial Telecommunication).

3.3 Phone (Mobile and Fixed) Internet Banking

Today, many banks provide modern e-banking suites that allow customers to personally initiate payment transactions on their mobile phones, fixed telephone lines and internet banking sites. Electronic transfers are emerging to be the toast of utility companies in Nigeria, as well as the preferred mode of settlement for tax authorities.

3.4 Card and Card Based Payment Mode

These are plastic cards that 'house' electronic chips as

memory. Though they are issued with a slight variation in functionality and usage, they essentially give the card holder online (direct) access to his funds in the bank or to some pre-loaded funds which can be used for various purposes as desired by the holder.

They include Debit cards, credit cards, cash cards etc. These cards are mostly useful and functional only when they have interface with some points of interaction (POI) like ATMs, POS' and on the internet for web-enabled transactions.

This is the most modern of all payments modes and has gained incontestable dominance in the more advanced world as an acceptable payment channel but its use and acceptability in Nigeria is still in its nascent stage.

ADVANTAGES OF NON-CASH ALTERNATIVES

After examining the advantages and disadvantages of cash as payment mode and

review of the features of non-cash alternatives, it is important to look at the advantages of non-cash alternative channels over cash.

(a) Personal convenience

The most important advantage of non-cash alternatives channels is the personal convenience they offer to both the giver and receiver of value.

- i Individuals do not have to carry bulky cash to make payments or settle obligations. Electronic cards fit easily into standard wallets and handbags and are lightweight.
- ii Plastic cards can be used almost anywhere Hotels, Bars & Restaurants, Supermarkets, shops, places of worship, taxi cabs, students hostel accommodation, sports arena etc for almost every kind of service provided. Though some of these outlets / facilities are yet to

be available in Nigeria, they remain fields of opportunities that are waiting to be tapped.

(b) Efficiency

Non-cash alternative payment channels are reliable, accurate and timely.

(c) Safety and Security

All non-cash payment channels are safer and more secure than cash. The risk of losses from counterfeiting, theft and armed attacks and attendant risk to life are considerably lower than cash payment mode.

5. POSITIVE IMPACT ON THE NATIONAL ECONOMY

Cost Advantage

The unit cost of producing, storing and handling cards and cheques are considerably cheaper than minting, storing and handling cash. Considering the huge cost incurred by the CBN on behalf of the

Government in the minting and management of currency, there are major opportunities for cost savings and redirection of such to other developmental areas of national priority.

Better Quality of Notes

It must be noted that cash cannot be completely eliminated from any economy. The general objective is to considerably reduce its use to an acceptable minimum level. The higher the migration to non-cash payment alternatives, the better the quality and the longer the usable life of cash notes in circulation.

Transparency of Transaction Report

There is also the advantage of proper and complete capturing and reporting of transaction which enhance openness, transparency and probably accountability in the conduct of business. The inherent audit trail

capabilities built into this mode of payment supports the objective of Anti-Money Laundering (AML) policies across the world. The preference of money launderers and terrorist organizations for economies with high cash usage underscores the effectiveness of non-cash alternatives payment modes against such unwholesome activities.

Redirection of more Funds to the Formal Sector

With more funds trapped in the formal system, more money is available for productive use as opposed to the present situation where a considerable proportion of funds outside the formal system are lying idle in earthen pots, barns, under the beds and on roofs of houses across the country.

Generally, the adoption of non-cash alternative channels creates better efficiency in the task of managing the national

economy. With higher volume of money in circulation going through the formal system, statistics and general information on economic activities are more accurate and reliable. Policy decisions made on such more reliable information have better impact on the economy.

Globalisation has brought about the need for nations that want to be taken seriously in the international arena to align their financial services systems with best international practices. The adoption of a secure and efficient payment system which meets strict international anti-money laundering policies will enhance Nigeria's profile and acceptability in the world financial scene. This, in addition to the numerous other advantages already highlighted, makes it imperative for us to increase the tempo and scope of our migration from a cash economy to a non-cash economy.

6. Challenges

i. Infrastructure

The success or otherwise of non-cash payment channels depend on reliable infrastructural facilities like robust telecommunications, constant energy supplies and widespread availability of points of interaction (POI) machines e.g ATMs, POS, Personal Computers (PCs). This remains a big hindrance to widespread acceptability and usage of these alternate channels.

ii. Literacy Level

Unlike cash, non cash payment modes require some level of literacy for their effective use. This is one reason why cash usage is still prevalent as it poses no literacy challenge to users.

iii. Culture Change

For hundreds of years, payment modes have been skewed predominantly towards cash. Indeed in many parts of Nigeria,

particularly outside the metropolis, cash is the only mode of payment. To change this habit therefore towards adoption of non-cash modes requires massive reorientation in attitude of our populace who has come to associate alternative payment modes to the elites in the society. It is this critical need that has been recognized by the CBN and forms the basis of this important seminar.

iv. Confidence Building

Extra efforts must be made by major stakeholders in ensuring reliability of the alternative payment system, easy accessibility for the populace, low cost and the prevention of fraud. Any situation that cast some doubt in the minds of the populace about the reliability or safety of these alternative modes could cause a set back on the collective efforts of the stakeholders at enhancing the use of these channels.

7. CONCLUSION

There is need not only to further the laudable reforms of the Federal Government of Nigeria, but also to ensure that business and non-business financial transactions are accessible and convenient for the

average Nigerian. These reforms in the payment system can only fast track the integration of Nigeria into the international financial system with attendant benefits for the economy. The role of the media and its professionals and practitioners, is to be a

partner in these efforts and to consistently create an atmosphere where effective information dissemination that would highlight the benefits of a non-cash payment channels for the customer would be attained.