

JIM OVIA'S PAPERS

THE NIGERIA AUTOMATED CLEARING SYSTEM:

IMPERATIVE FOR COST EFFECTIVE IMPLEMENTATION ON THE FINANCIAL SYSTEM

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Introduction...

- The present Automated Clearing System is undoubtedly one of the most ambitious projects aimed at improving efficiency of the banking system. It is being coordinated by the Central Bank of Nigeria (CBN) in collaboration with NIBSS and the banking industry.
- The objectives of the project are consistent with the Vision Statement of the CBN: "To be one of the most efficient and effective among the world's central banks in promoting and sustaining economic development".
- The present manual system cannot support sophisticated and new technologies being introduced by various banks.
- The manual system will definitely collapse due to obsolescence as it may be over-whelmed by the pressure of increased volume of clearing activities as more banks are Licensed and admitted to the Clearing House.
- Key roles will be played by - Solution Providers, PBCC, NIBSS, CBN.

IMPLEMENTING THE AUTOMATED CLEARING SYSTEM

NCR has been awarded a contract for \$4 million as solutions provider to the Automated Clearing System. Their responsibilities are:

- Supply of hardware equipment at the Zonal Clearing Centre that will support any number of approved Direct Participating Banks
- Supply of software and customisation of same.
- Appoint Communication Consultants who should perform the following duties.
- Provision of Virtual Private Network (VPN) with nodes in various locations in Lagos.
- Provision of communication equipment at the Zonal Clearing Centres.
- Assist Participating Banks in the acquisition of communication equipment
- Ensure encryption of data and security of communication links.

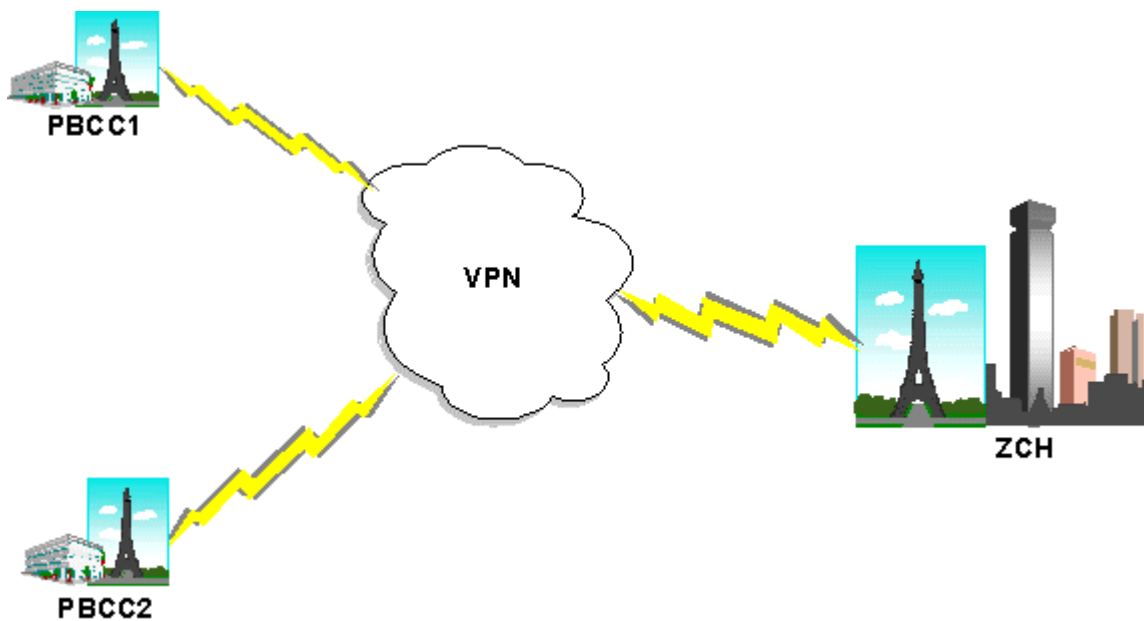
ROLES OF NIGERIA INTERBANK SETTLEMENT SYSTEM: NIBSS

- NIBSS will serve as Zonal Clearing Centre
- To coordinate admission of members. The admission process should be fair, equitable and transparent.
- NIBSS to coordinate the pilot scheme, which should simulate the real-life situation.

DIRECT PARTICIPATING BANKS

- Approved members should fairly represent the interest of all banks
- Process and clear instruments on behalf of indirect banks and themselves
- Establish a Local Clearing Centre that should accommodate indirect Banks
- Establish radio link to VPN

NIGERIAN AUTOMATED CLEARING SYSTEM -NACS



COST IMPLICATIONS

- Initial capital outlay: \$4 million (N447 million) This amount has been contracted to the solutions provider (NCR) for the supply of hardware and software to Lagos
- Zonal Clearing Centre.
- Additional financial commitment may be required for the various upcountry zones.
- Estimated cost for equipping a typical PBCC is N33 million.
- This amount does not include upcountry installation during the second phase.
- Cost of staffing, training and BYOI is not included in the above estimate

PBCC: DIRECT OR INDIRECT PARTICIPATION

- A general statement of fact is that all 98 banks in the country are participating banks and would derive equitable benefits by virtue of having their cheques value-dated equally. However, some banks would choose to participate as direct members (option 1) by having access to Zonal Clearing Centre while other banks may opt for indirect participation (option 2).

Option 1

- Assumption: All 90 banks in Nigeria are direct PBCC
- Costs estimate: N2.97 billion (N33 million x 90)

Perceived “Benefits”

- envisaged public applause and great sense of pride
- ensure customer confidence. Prevent customer defection
- may gain extra few days for value-dating of cheques
- avoid payment of fees to direct PBCC

Reality

- the public is indifferent. The efficiency of the overall banking system would be applauded
- customers will be retained if their banking needs are met
- automated clearing house job is a back office job. It is not visible to the customer or public.
- all instruments will be given same value date subject to clearing house rules for local and upcountry cheques irrespective of whether presented through direct or indirect PBCC
- some banks are presently processing less than 500 instruments daily, which may not be cost effective to solely set up a PBCC.
- all operating cost of each PBCC to be prorated
- no windfall gain for any PBCC
- no arbitrary charges. All charges to be uniform for PBCC

Option 2

- Hypothetically, only 20 banks may choose to participate as direct PBCC
- Total cost: N660 million (N33 million x 20)
- Benefits to members: Same as option 1, in addition to streamlining and decongesting the Zonal Clearing Centre.
- Cost savings to the industry: N2.57 billion

WIN WIN SITUATION

- It is expected that the following business and system objectives will be achieved when the automated Clearing System is fully implemented
- A win, win situation for all banks and their numerous customers.
- The CBN and the nation will gain increased international respect.
- Effectively and efficiently clearing items (cheques) based on electronic data presented will significantly reduce clearing float for local cheques from 4 to 2 days. Upcountry cheques from 9 to 5 days.
- Maintaining and enforcing standards of clearing procedures, communication and quality of clearing items
- Promoting effective control through tracking and reconciling items with related electronic data
- The reduction of fraud cases
- Proactive analysis can be available online to banks regarding their debit and credit balances which will result in timely positioning adjustments.
- Historical analysis will be available online to banks. It is expected that a five-year historical data will be stored.
- Manually prepared, controlled documents will be replaced by computer generated audit trail.
- Human errors will be eliminated through automated balancing and reconciliation

FUTURE HORIZON

- Nigeria Automated Clearing System will in the future serve as a gateway for the integration of other payment systems in Nigeria.
- The system can also be enlarged to handle clearing of instruments between Nigeria and other West African countries or other African countries under the auspices of WABA or other associations among African banks.
- The success of the Automated Clearing System will be a prelude for all banks in the country to interconnect their network such that transactions can be processed by any bank through the central network and support seamless interbank funds transfer.
- For payments of utility bills for example, funds are transferred
- electronically from a customer's bank account to the utility
- company's bank. (NITEL is a good example)

CONCLUSION

- When fully operational, the Automated Clearing System will enable Nigerian banking institutions to embrace new technologies and systems in order to enhance productivity.
- The success of the Automated Clearing System will pave way for internet banking and e-commerce to blossom in Nigeria.
- Tremendous business and systems benefits will accrue to all
- financial institutions in the country as well as their respective
- customers when the Automated Clearing System is fully implemented.