

LEAD DEBATE ON THE NATIONAL PAYMENT SYSTEM BILL, 2021 (SB. 148).

Sponsor: Sen. Umar, Sadiq Suleiman (*Kwara North*).

Mr. President, Distinguished Colleagues, permit me to lead the debate on this very important Bill which seeks to make provision for the Management, Administration, Operation, Regulation, Clearing and Settlement System in Nigeria.

This Bill was read the First Time on Thursday, 7th November, 2019.

Payment System is defined as:

- a) The conditions under which payment institutions providing payment services are authorized and operators of payment, clearing and securities settlement systems are licensed by the Central Bank of Nigeria;
- b) Most importantly, the means and procedures under which the Central Bank shall exercise its oversight powers. Payment system therefore is an operational network governed by laws, rules and standards that link bank accounts and provides the necessary functionality for monetary exchange using bank deposit.

Mr. President, my highly esteemed Colleagues, payment system is the infrastructure established to effect the transfer of monetary value between parties discharging mutual obligations. Its technical integrity determines the efficiency with which monetary transaction instruments are used in the economy and the associated risks.

It is important to emphasize that what makes it a "System" is basically that it employs cash substitutes. Traditional payment systems are negotiable instruments such as drafts, cheques and documentary credits such as letters of credit. With the advent of computers and electronic communication, a large number of alternative electronic payment systems have emerged and are now objective reality in our day to day transactions. These include debit cards, credit cards, electronic funds transfers, direct credits, direct debits, internet banking and e-commerce payment systems.

Payment systems may be physical or electronic and each has their own peculiar procedures and protocols. Standardization has allowed some of these systems and networks to grow to a global scale, but there are still many countries and product specific systems. Examples of payment systems that have become globally available are credit cards and automated teller machine networks. Specific forms of payment systems are also used to settle financial transactions for products in the equity

markets, bond markets, currency markets, future markets, derivatives markets, options markets for transfer of funds between financial institutions both domestically using Clearing and Real Time Gross Settlement Systems (RTGS) and internationally using SWIFT network.

An efficient national payment system reduces the cost of exchanging goods and services, and is indispensable to the functioning of the interbank, money and capital markets. A weak payment system may severely affect the stability and development capacity of a national economy and consequently result in inefficient use of financial resources, inequitable risk-sharing among agents, actual losses for participants and loss of confidence in the financial system and in the varying means of use of money.

Needless to reiterate that technical efficiency of payment system is important for the development of the economy. Real Time Gross Settlement Systems (RTGS) are funds transfer systems where transfer of money or securities takes place from one bank to another on a "real time" and on "gross" basis. Settlement in "real time" means that payment transaction does not require any waiting period.

The transactions are settled as soon as they are processed. "Gross Settlement" on the other hand means that the transaction is settled on one on one basis without bunching or netting with any other transaction. Once processed, payments are final and irrevocable.

This "electronic" payment system is normally maintained or controlled by the Central Bank of the country. There is no physical exchange of money; the Central Bank makes adjustments in the electronic account of Bank A and Bank B, reducing the amount in Bank A's account by N100, 000 and increasing the amount of Bank B's account by the same amount.

The RTGS system is suited for low volume and high-volume transactions. It lowers settlement risks, besides giving an accurate picture of an institution's account at any point in time. Such systems are alternative to systems of settling transactions at the end of the day, also known as the net settlement system. In the net settlement system, all the inter-institutions transactions during the day are accumulated. At the end of the day, the accounts of the institution are adjusted. The implementation of RTGS systems by Central Bank throughout the world is driven by the goal to minimize risk in high-value electronic payment settlement systems. In an RTGS system, transactions are settled across accounts held at the Central Bank on continuous gross basis. Settlement is immediate, final and irrevocable. Credit risks due to settlement lags are eliminated.

The best RTGS national payment system covers up to 95 *per cent* of high-value transactions within national monetary market. The World Bank has been paying increasing attention to payment systems development as a key component of the financial infrastructure of a country, and has provided various forms of assistance to over 100 countries. Most of the RTGS systems in place are secure and have been designed around international standards and best practices.

A proper functioning payments system among other things ensures distribution of liquidity in all sectors of the economy and allows transactions to be completed safely and on time.

Well designed and managed payment systems help to maintain financial stability by preventing or containing financial crisis, and help to reduce the cost and uncertainty of settlement, which could otherwise act as an impediment to economic activities. Payment and settlement systems therefore are to economic activities as roads are to traffic.

Consequently, an efficient payment system enhances the smooth and fast flow of funds for payment of goods and services. Today the emphasis is on electronic transactions with higher velocity and it is on this note that the national payment system is being introduced to enable us move away from the traditional means of payment to what is acceptable globally.

I appeal to you all to give this Bill the necessary support so as to bring our economy and people at par with international best practises. It is equally important to state that no new body shall be created hence there is no compendium of cost attached.

The system has proved to be very robust (from both the operational and financial risks viewpoint) filling the needs of the banking community.

I therefore solicit the support of my respected Colleagues for the Second Reading of this Bill.