

NAIRA REDESIGN AND CASHLESS POLICY: WITHER THE ROLE OF BANK NEUTRAL CASH HUBS?

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Revived policy, implementation challenges, and legal fireworks

The Naira redesign policy of the Central Bank of Nigeria (“**CBN**”), aimed at driving the objectives of the country’s ongoing migration from a cash-dominated economic environment to an electronic payments market, otherwise known as cashless economy, has passed through different stages of implementation since it was recently reintroduced via a circular to financial institutions on December 6, 2022.

The initial deadline, for which the redesigned ₦200, ₦500 and ₦1000 banknotes (“**old notes**”) were to cease being legal tender, was extended from January 31, 2023, to February 10, 2023. Prior to this, the CBN had by a circular dated January 20, 2023, launched a cash-swap programme in rural and underserved areas in partnership with Super Agents and Deposit Money Banks (“**DMBs**”). Under this arrangement, citizens in the areas could exchange the old notes for the new banknotes or their equivalent value in the lower denominations not affected by the redesign policy. The cash swap programme, which became effective on January 23, 2023, was expected to last till the CBN-announced deadline of February 10, 2023.

Whilst reports from the rural and underserved areas indicated that the cash swap programme achieved little success within the timeline provided, there were virtually no similar cash swap arrangements in the urban centers to facilitate the exchange of the old notes with the new banknotes. Bank customers who managed to deposit their old notes within the specified timeline continued to lament their inability to access the new banknotes from ATMs or across the

counter, contrary to the stipulations in the relevant CBN circulars on cash withdrawal limits.

The widespread agitation among millions of bank customers across the nation has resulted in several lawsuits by relevant parties, who are asking the courts for one relief or the other. The case originally instituted by three State Governments against the Federal Government of Nigeria (“**FGN**”) at the Supreme Court, seeking an order of the apex court stopping the FGN and the CBN from implementing the February 10, 2023, legal tender status deadline of the three old notes, later overtook the previous cases



on the matter.

The Supreme Court on February 8, 2023, granted an interim injunction restraining the FGN and CBN from implementing the deadline of February 10, 2023, pending the determination of the Motion on Notice. At the resumed hearing on February 15, 2023, eight additional State Governments applied to be joined in the suit as plaintiffs while two other State Governments also applied to be joined as respondents. Amidst the legal fireworks, the Supreme Court has adjourned the case on several occasions to allow for the consolidated suits to be heard on the



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to allow for the consolidated suits to be heard on the merit, while clarifying that its earlier injunction preserving the old notes as legal tender, remains subsisting until the determination of the substantive suit.

In a twist of events, President Muhammadu Buhari, in a national broadcast on February 16, 2023, addressed the perennial cash crunch which has been triggered by implementation of the Naira redesign/cashless policy, by extending the legal tender status of the ₦200 old note from February 10, 2023, to April 10, 2023, and directing the CBN to recirculate it alongside the new ₦200 banknotes. This intervention was however not extended to the ₦500 and ₦1000 old notes, which the President declared have ceased to be legal tender and should be returned to the CBN or any CBN-designated redemption center, in accordance with the relevant provisions of section 20 of the CBN Act of 2007. While this is expected to ease the pain of the cash crunch, it is not clear how the President's declaration that the ₦500 and ₦1000 old notes have ceased to be legal tender, can be reconciled with the interim injunction of the Supreme Court while the order lasts.

Are Bank Neutral Cash Hubs still relevant?

In the implementation of the cashless policy and the attendant withdrawal of excess cash from outside the banking system, it is pertinent to consider the relevance of the CBN-approved Bank Neutral Cash Hubs (“Cash Hubs”).

In March 2022, the CBN released an exposure-draft on *Guidelines for Bank Neutral Cash Hubs Operations in Nigeria*. The guidelines were finalized

after receiving and considering comments from stakeholders, leading to the final issuance, in June 2022, of the **“Guidelines for the Registration & Operation of Bank Neutral Cash Hubs (BNCH) in Nigeria”**. The main objective for setting up Cash Hubs is to achieve improvement in operational efficiency in the country's cash management value chain, by reducing the risks and costs borne by banks, merchants, and huge cash handlers. Cash Hubs are also expected to leverage on shared services in the cash management ecosystem and deepen financial inclusion. Only DMBs and Cash Processing Companies (“CPCs”) are eligible to apply to the CBN for a license to establish and operate a Cash Hub.

Eligible activities by a Cash Hub as prescribed in the Guidelines are (i) receipt of Naira-denominated deposits on behalf of financial institutions from individuals and businesses with high volumes of cash, (ii) disbursement of Naira-denominated withdrawals on behalf of financial institutions to individuals and businesses with high volumes of cash, and (iii) any other activities that may be permitted by the CBN, based on business needs. Cash Hubs are required to be located in areas with high volumes of commercial activities and cash transactions, and they are to provide a platform for customers to make cash deposits and receive values irrespective of the banks with which their accounts are domiciled.

As the CBN continues to mop up excess cash from outside the banking system, and begins the first stage of redemption of the old notes with the ₦500 and ₦1000 at its offices nationwide and at any other locations it may designate for that purpose, Cash

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Hubs appear like a more optimal option for designated redemption centers, going by their cash deposit role. The CBN should therefore encourage eligible promoters to set up Cash Hubs under the operational guidelines in rural and underserved areas, as well as in central business districts of urban areas, and designate them as old notes redemption centers across the length and breadth of the country.

However, it is unclear what the roles of established Cash Hubs would be in the post-demonetization era, when the Naira redesign policy would have ended, and the economy would have been substantially onboarded into a cashless ecosystem. Will the volume of cash handling permissible under the CBN's *Revised Cash Withdrawal Limits* be sustainable for the operations of Cash Hubs? Will there be enough incentives for DMBs and CPCs to set up Cash Hubs? Perhaps, the prescribed daily and weekly cash withdrawal limits may work for Cash Hubs that are set up in rural and underserved areas, where banking facilities are either inadequate or non-existent or perhaps, the CBN may consider an upward revision of these limits in such rural and underserved areas which would truly struggle to undertake cashless

transactions.



To read our full article on the **Operational Guidelines for Bank Neutral Cash Hubs in Nigeria**, click [here](#).

To read our commentaries on the **Central Bank of Nigeria's Cash Withdrawal Limits**, click [here](#) and [here](#).

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Contact Persons:



Seyi Bella

Partner

E: sbella@banwo-ighodalo.com



Oluwatoba Oguntuase

Senior Practice Support Lawyer

E: ooguntuase@banwo-ighodalo.com