



Increasing Retail Participation in the Capital Market – Progress Report

Presented by

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For

Capital Markets Committee

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Agenda

- 1 • Introduction: Three Foundations for the Retail Market
- 2 • Direct Cash Settlement (DCS)
- 3 • DCM – Critical Process Flows and Next Steps
- 4 • Identity Management in the Capital Market
- 5 • Smart Trading
- 6 • Dematerialisation
- 7 • Post Trade Allocation

Objectives and how to proceed

1

Full
Dematerialization



2

Direct Cash
Settlement



3

Smart
Trading



- It is recommended that the first phase of the project would be **Full Dematerialization**.
- The Direct Cash Settlement initiative will require complete documentation and reconciliation of investor information, holdings, contact details (with the CSCS and respective Registrars), and bank account details; hence full dematerialization is required initially.

- While full dematerialization is being implemented, the **Direct Cash Settlement** initiative would be simultaneously implemented, leveraging on the progress made from putting into operation the dematerialization processes.
- It is envisioned that Direct Cash Settlement should be optional to investors to enable them to choose between direct and non-direct settlement.

- Running in parallel will be the full roll-out of **Smart Trading**, which would in turn lean on an updated and reconciled investor database to bolster trading velocity.
- Direct implication of this initiative would be increased investor control, which in turn would translate to increased investor confidence, improved levels of financial inclusion and ³ surge in trading volumes.

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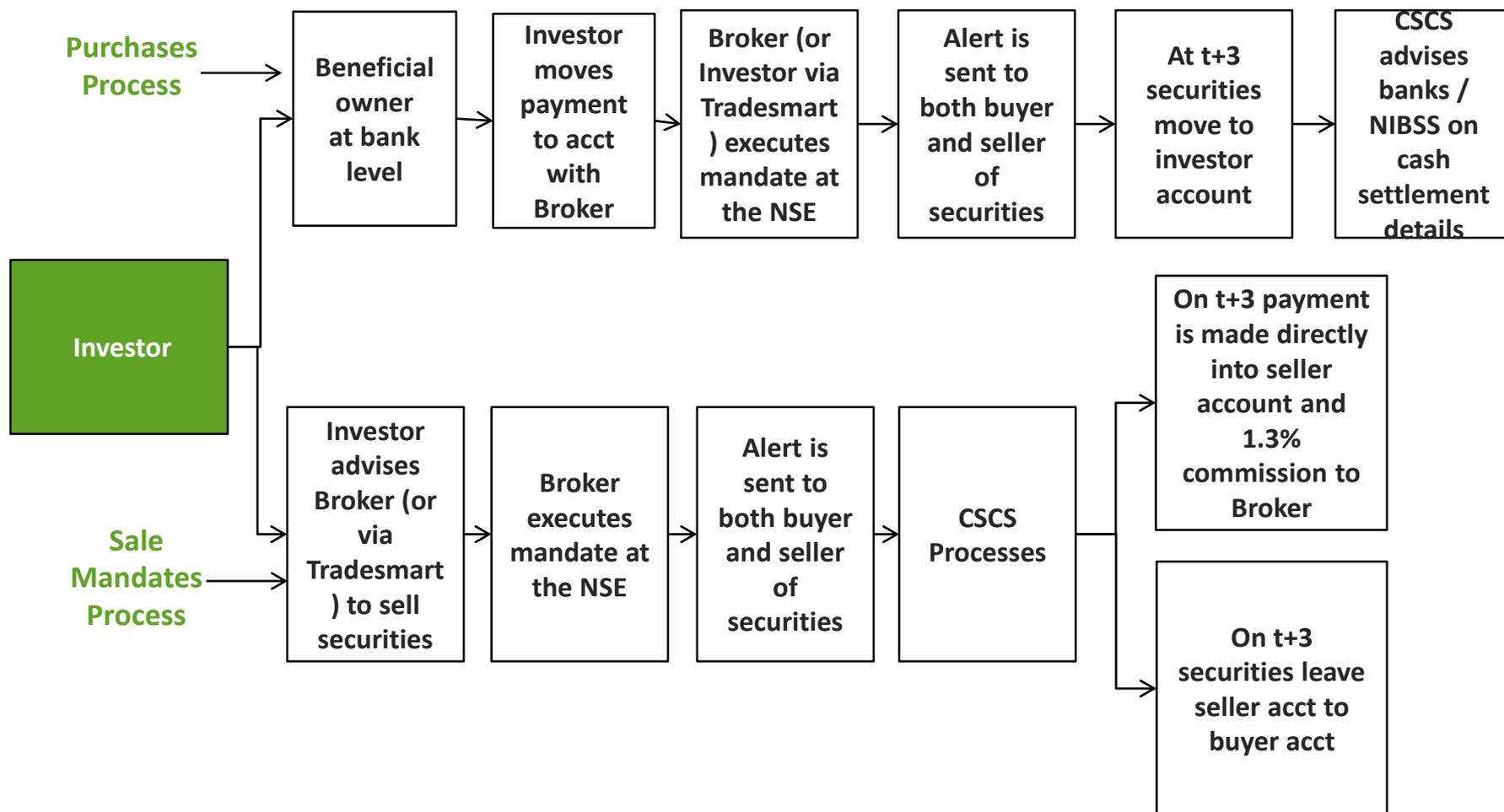


DIRECT CASH SETTLEMENT

- *Enhances investor confidence, improves transparency and encourages more participation in the market*
- *Direct Cash Settlement Process flow*
- *Use of BVN as solution to Investor Identification problem*
- *Migration Process*
- *Challenges and Next Steps*

Direct Cash Settlement - Critical Process Flow

- The process flow diagram below depicts the structure of Direct Cash Settlement.



Next Steps

Finalise Process Flow with ASHON

Conversations ongoing with Dealing Firm Representatives and CSCS to ensure that E2E process can be fully incorporated into Broker flows for processing orders from investors. This will detail Bank Account Details Capture and Commission Payment

Commence Investor Awareness Campaign

Once Live date is agreed (aimed at 4th January 2015), the market participants should commence an intensive campaign

Integrate BVN Into the Process

**Process of confirming/verifying a customer by matching his/her biometric feature with the BVN against what has been captured in the database.
Critical building block**

Go Live

Work with brokers and registrars to encourage
Process of confirming/verifying a customer by matching his/her biometric feature with the BVN against what has been captured in the database.

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INVESTOR IDENTITY MANAGEMENT

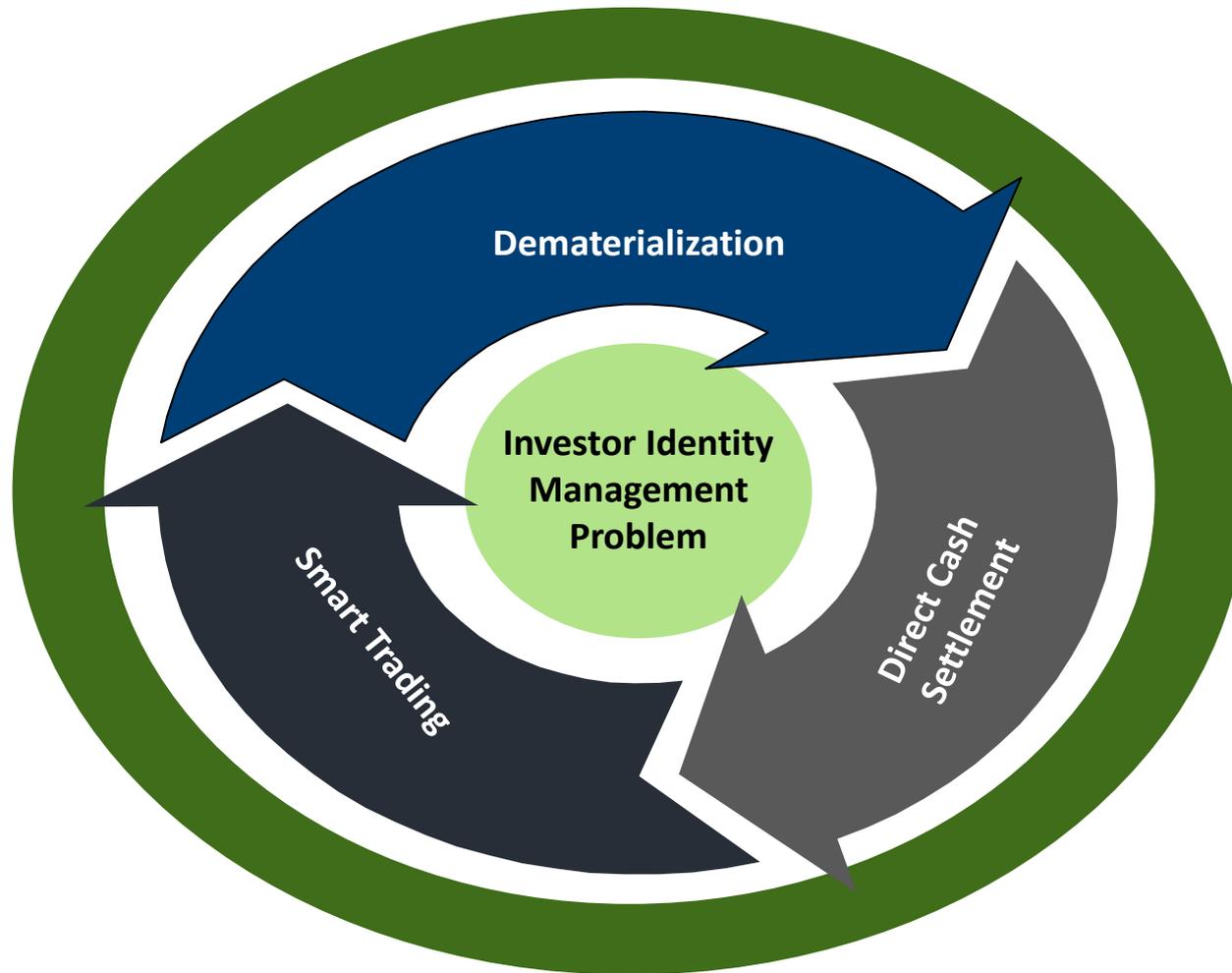
Solving the Identity Management Problem of the Nigerian Capital Market

Facilitating Financial Inclusion

Simplify onboarding of Investors

Improving Investor Confidence

Solving the Identity Management Problem Using BVN



Bank Verification Number (BVN)

BVN Offerings – Verification and Validation

BVN Offerings

Verification

Process of confirming/verifying a customer by matching his/her biometric feature with the BVN against what has been captured in the database.

Upon successful verification, the image and demographic information of the customer is displayed.

Validation

Process of confirming/verifying a customer by matching his/her BVN number with the BVN database and confirming basic details such as name, DOB and Bank Account details against what was captured in the BVN database.

BVN Verification – Options from NIBSS

Option 1:

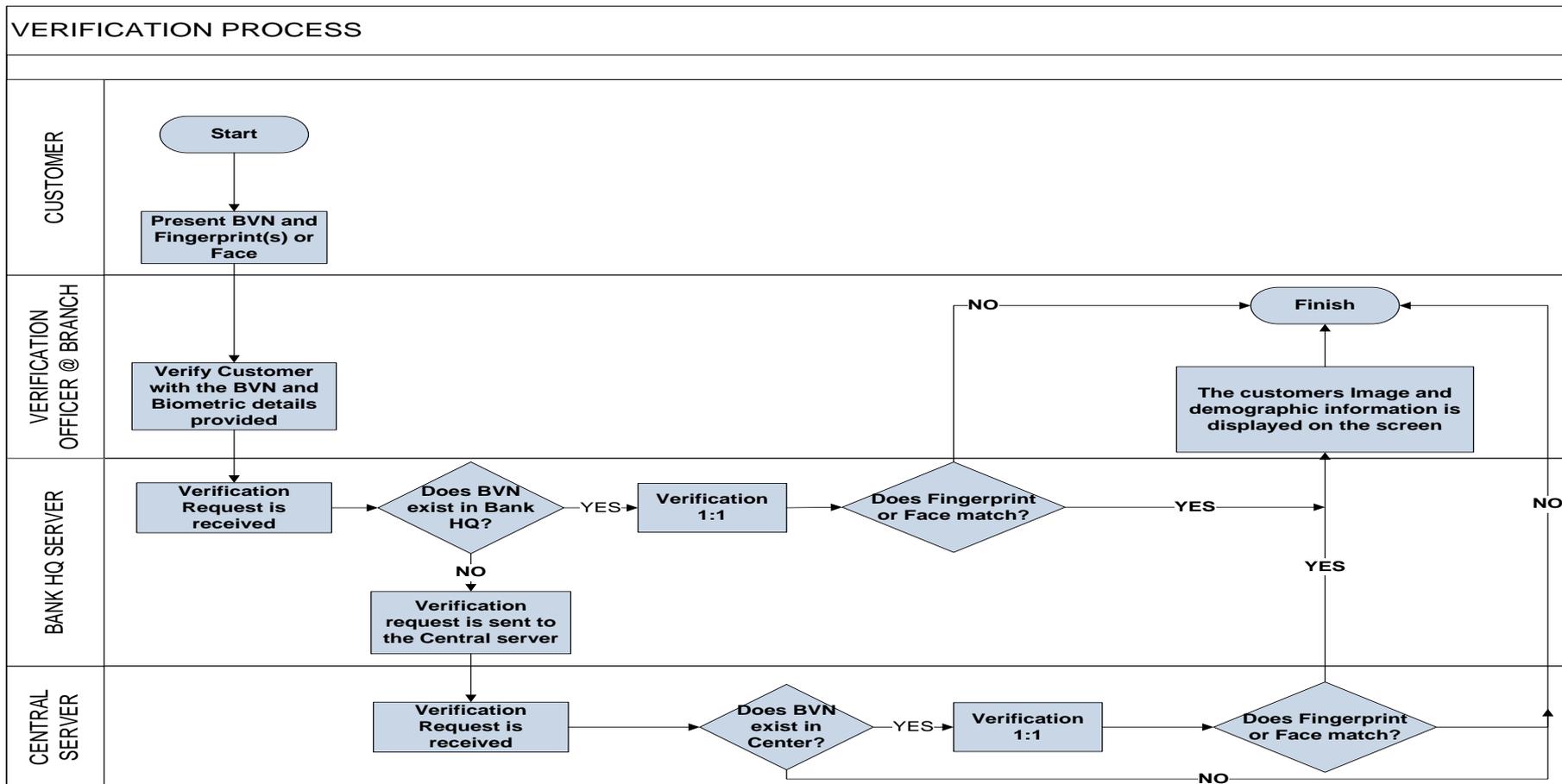
- Brokerage community to connect to a central server hosted by NIBSS.
- Implications:
 - ✓ Secure link between each broker and NIBSS – 21st Century, while IPNX would be for redundancy.
 - ✓ Device cost – procurement of scanners at broker offices.
 - ✓ Access fee per Broker – N4 million (one-off payment)
 - ✓ Yearly Subscription by each brokerage firm

Preferred

Option 2:

- Brokerage community to connect to a central server hosted by the CSCS.
- CSCS server to connect to NIBSS via a secure link - 21st Century, IPNX
- Implication:
 - ✓ Cost of Central Server at the CSCS – \$400,000 (estimate)
 - ✓ Access fee – N4 million for the CSCS central server (one-off payment)
 - ✓ Yearly Subscription by the CSCS
 - ✓ Each brokerage firm, to connect to the central server at the CSCS through existing link.

BVN Verification Process (from NIBSS)



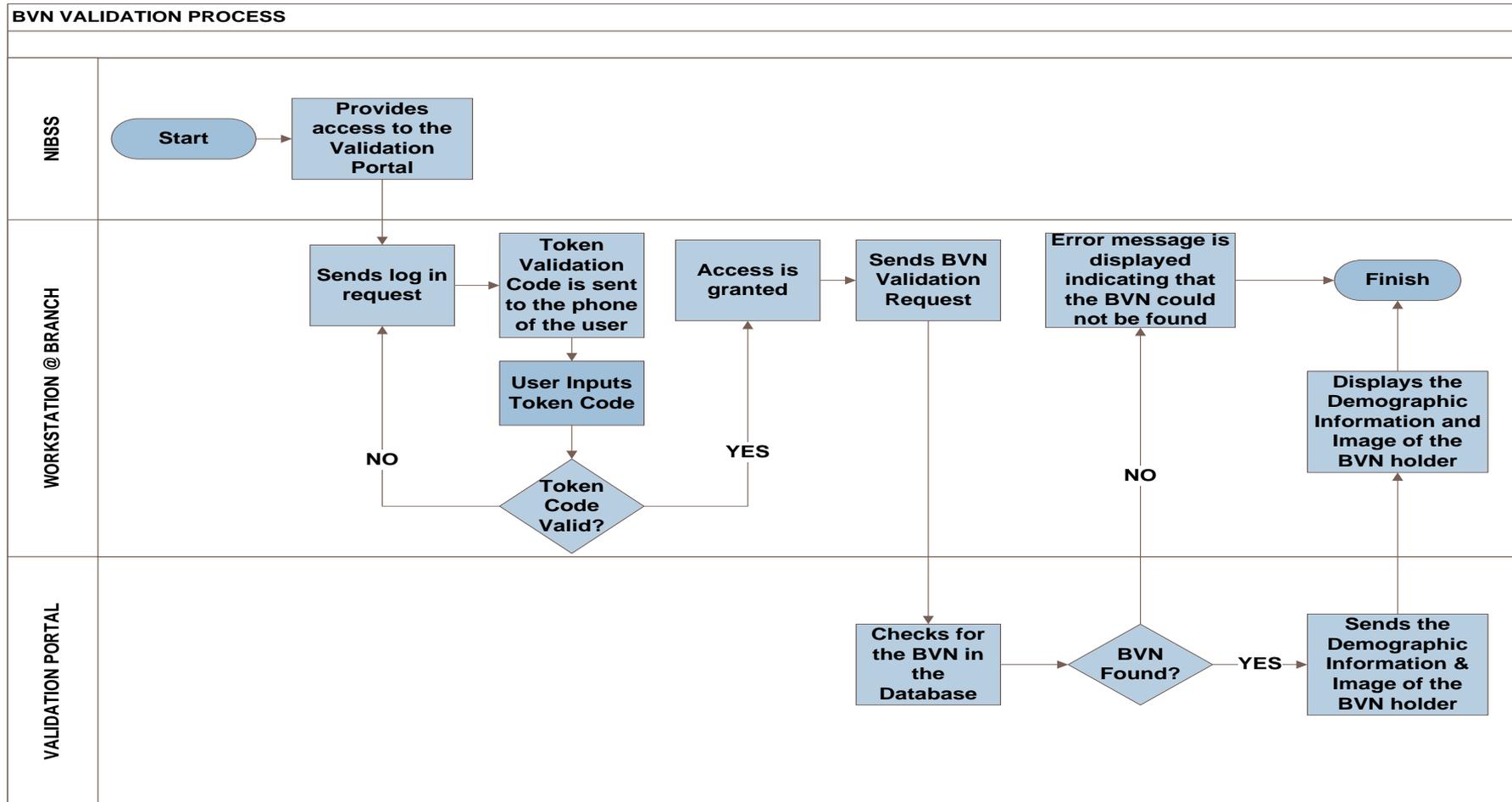
- Customer presents BVN and fingerprint(s) or face and is verified using the Fingerprint Scanner (ZF1) or Webcam
- Customer's fingerprint/face is automatically compared with the biometric details stored for the customer on the Bank HQ server.
- Where the BVN of the customer does not exist on the Bank HQ server, the verification request is sent to the Central server to compare the biometric information provided by the customer and what is stored in the central database.

BVN Verification – Detailed Cost (from NIBSS)

Cost Category	Cost where HQ is not NIBSS (\$)	Cost where HQ is not NIBSS (₦)	Cost where HQ is NIBSS (\$)	Cost where HQ is NIBSS (₦)
Central Cost				
Link from Branch to HQ (21st Century/ IPNX-2MBPS) per annum	*3,720.93	800,000.00	-	-
Required Infrastructure (Capex)	247,935.96	53,306,231.40	-	-
Annual Maintenance (Opex)	66,544.85	14,307,142.75	-	-
Access Fee (One-off)	-	-	24,262.09	5,216,349.35
Annual Subscription fee	-	-	21,934.74	4,715,968.40
Total	318,201.74	68,413,374.15	46,196.83	9,932,317.75
Branch Cost				
Branch License (Cost per branch)	750.65	161,389.75	750.65	161,389.75
Fingerprint Verification Scanner (1)	365.00	78,475.00	365.00	78,475.00
Webcam (1)	355.00	76,325.00	355.00	76,325.00
#Link from Branch to HQ (21st Century/ IPNX-2MBPS) per annum	-	-	*3,720.93	800,000.00
Total	1470.65	316,189.75	5,191.58	1,116,189.75
Grand Total	319,672.39	68,729,563.90	51,388.41	11,048,507.50

- **Price depends on bandwidth, location of branch, type of link (e.g. Fibre, internet) etc.*
- *Exchange rate @ \$215*
- *Where HQ is NIBSS, a transaction fee of ₦20 will be charged for each successful verification.*
- *# The Stockbrokers all have an existing network to CSCS in the event that HQ is not NIBSS, so cost is required.*

BVN Validation - Process & Cost (from NIBSS)



- *BVNs will be confirmed/validated using the BVN Validation Portal*
- *Access to the Validation Portal will be provided by Nigeria Inter-Bank Settlement System (NIBSS)*
- *A Soft Token Validation Code will be required for every login to the Validation Portal*
- *Upon successful BVN validation, the demographic information and image of the BVN holder would be displayed*
- *A transaction fee of ₦50 would be charged for each validation*

BVN Verification & Validation – Conclusions/Next Steps

Validation

- ✓ NIBSS to revisit the BVN validation charge of N50 with view to a downward review, considering:
 - i. the number of investors (about 6.5m) currently in CSCS database that would require BVN validation at the outset - a.
 - ii. some clients have accounts with more than one Broker. In which case, validation would take place more than once as each broker would carry out validation on account basis.
 - iii. The numbers in i) and ii) above are expected to grow exponentially with the implementation of the full dematerialization initiative
- ✓ Capital Market to focus on BVN Validation, for the time being
- ✓ BVN capture in CSCS database to be linked to the validated BVN number of investors.

Verification

- ✓ Business case for verification, still unclear.
- ✓ Considerations to continue around achieving verification at very minimal cost.
- ✓ CSCS Verification platform to continue to serve verification need across the capital market.

BVN Validation Process - Other Considerations

BVN Validation for Existing Clients

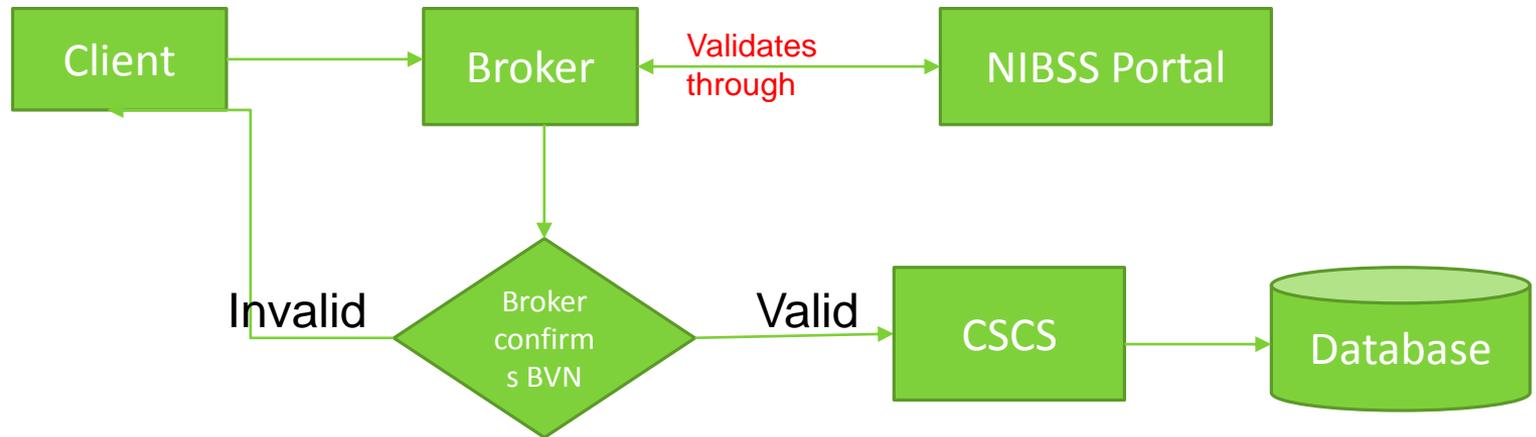
1. It is assumed that all existing clients in Broker books are fully KYCed with valid passport photograph.
2. Photograph in 1 above will serve as reference point for BVN validation on NIBSS platform, by a reliable staff of each Broker Dealer firm. The client does not necessarily need to appear in person.
3. Client accounts that fail BVN validation based on photograph would be required by the broker to come in person for the validation exercise.
4. Validated BVN would be sent electronically by the Broker to the CSCS, through the existing link.
5. Payment for validation would be made through a debit to client cash account with broker.
6. Broker, to advise an account to NIBSS, for direct debit (real-time), as soon as validation occurs.
7. BVN Validation, to be incorporated into KYC requirements.

BVN Validation for New Clients

1. Broker validates client's BVN as part of pre-entry KYC.
2. The API would be used to validate the BVN against a valid client account number, while allowing the broker to carry out additional KYC checks
3. Validated BVN would be sent electronically to the CSCS along with other KYC details.
4. CSCS attaches validated BVN to CHN Number and CSCS Account number, which are then returned to the Broker.
5. Brokers would need to maintain a database to keep record of validated BVN for their clients.
6. All order management system providers would need to include a field for BVN in their systems

BVN Validation Process (Adaptation for the Nigerian Capital Market)

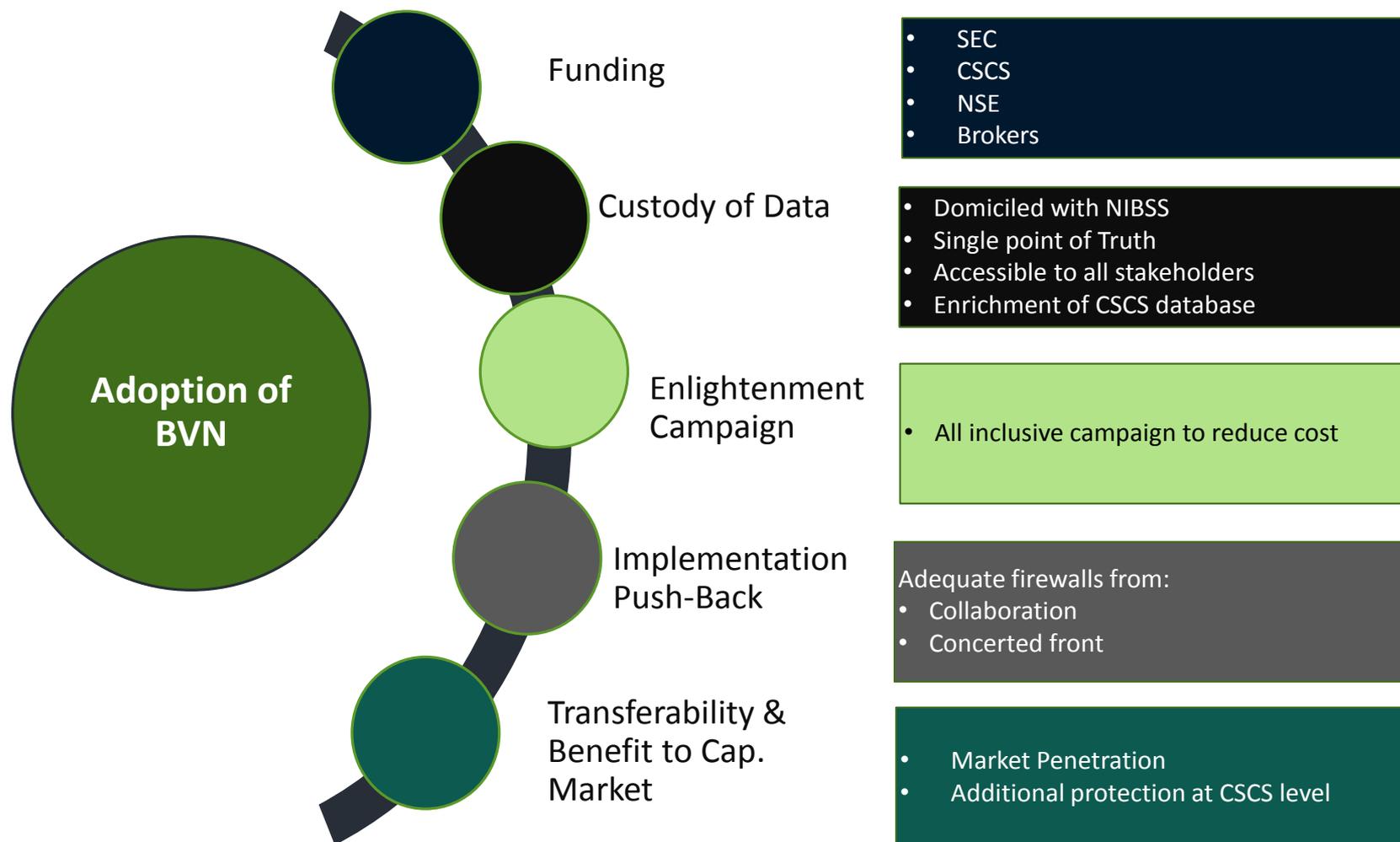
Initial Validation



Subsequent Validation



Major Considerations



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SMART TRADING

Improve Transparency and confidence

Expand your Distribution Channel

Promote Inclusion

18

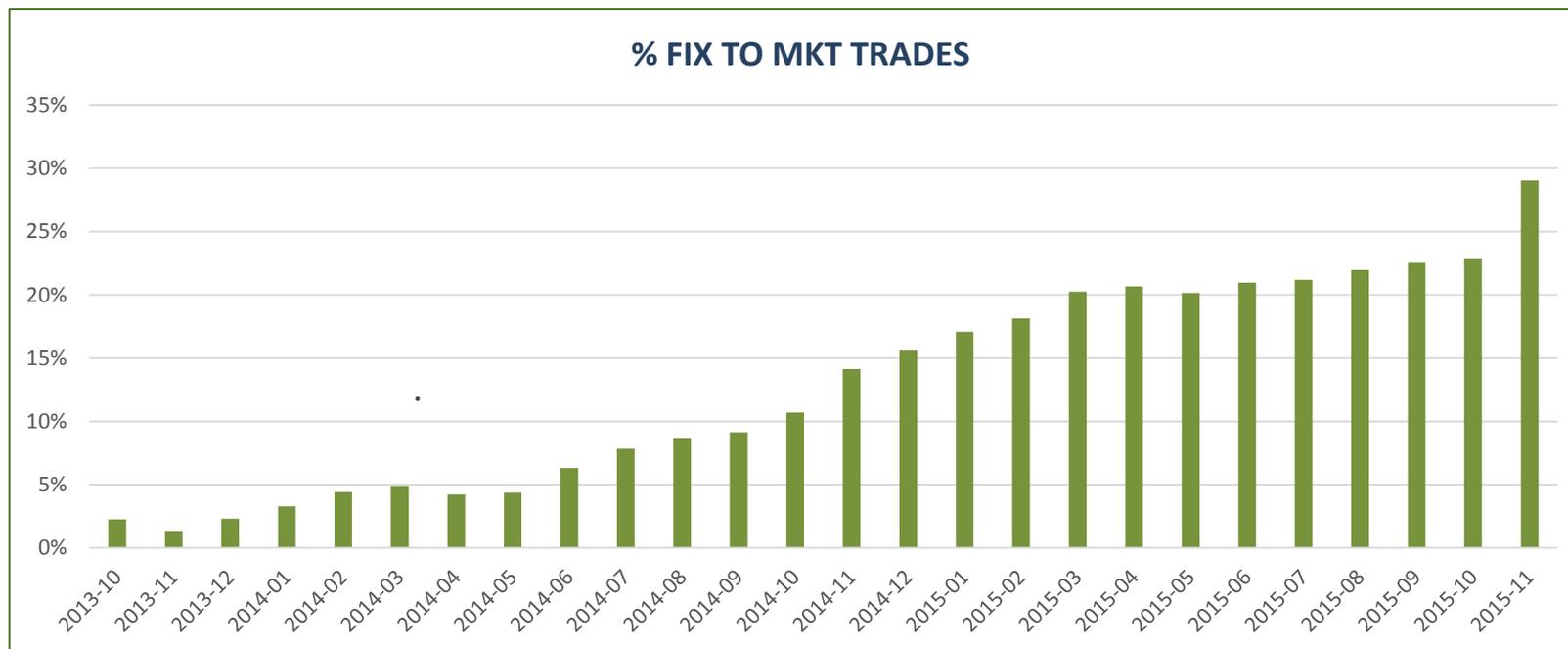
Smart Trading - Updates

Number of Firms on Fix Connectivity

79

% of Total Number of Trades done via Fix

27%



NEXT STEPS

Accelerate adoption of Order Management System (OMS) and e-trading/mobile app capabilities to achieve increased market coverage of retail investors

19

Comprehensive Retail Foundation



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THANK YOU
Questions & Answers