

# The Impact of Adopting Electronic Banking in Nigeria Economy: Issues and Challenges

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## Abstract

This study examines the “impact of adopting electronic system of banking in Nigeria on the Economy, using Lagos, Abuja, Abia, Anambra and Port-harcourt as areas of concentration. Thus, the paper x-rays the implication of e-banking with a view of exposing the possible challenges it poses to the Nigeria Economy, while employing aggregated approach. Analytically, this study will employ descriptive statistics to highlight or overview the effectiveness of the electronic banking policy of the Central Bank of Nigeria. The study was informed by the doubts as regards the effectiveness of various economic policies achieving developmental goals of Nigeria. Therein, the recent evolution of electronic money poses interesting questions for policy makers all over the world. This work also seeks to evaluate the policies of the Central Bank of Nigeria as well as to proffer valuable recommendations on the execution of e- banking initiative in Nigeria. The study presents significant recommendations such as availability of sufficient and well functioning infrastructural facilities (notably electricity), harmonization of fiscal and monetary policy, regular assessment of the performance of electronic banking channels individually and collectively; consideration of the present state and structure of the economy; redesigning of the monetary policy framework towards economic growth, whilst managing inflation. In conclusion, the shift towards e-banking in Nigeria seems to be beneficial though, it comes with high level of concern over security and management of cost savings resulting from its implementation.

**Keywords:** Electronic Banking, Monetary policy , Developmental Goals and Economic growth.

## INTRODUCTION

Adopting Electronic Banking policy in Nigeria raises many questions like these; are we capable of embarking on technological advancement? Or should we adopt it because other advanced countries have adopted it? As global financial systems become more connected, economies around the world gradually shift to electronic system of payments to quicken the delivery of their financial services. This is prominent in developed economies in the world like European and Asian continents where the use of technology has become ubiquitous.

The Central Bank of Nigeria’s (CBN’s) electronic banking system initiative simply means an arrangement where the volume of cash used in transactions are being reduced to minimal and electronic payment or electronic commerce system of business transaction are encouraged in the country. Several countries have continued to make giant strides in this direction which had boosted trade and other economic activities. Nigeria and indeed several African countries have lagged as most of the businesses are conducted with as transactions.

In its efforts to reposition the nation’s economy and make it relevant to the global financial environment, the central Bank of Nigeria (CBN) has continued the reform of the financial sector which is aimed at encouraging electronic payments and electronic commerce (e- payments and e-commerce). In order to achieve these goals, the apex bank recently introduced a new programme called cashless policy.

The cashless policy of CBN is an initiative of the Bankers’ committee. The Bankers’ committee comprising the Central Bank of Nigeria, Nigeria Deposit Insurance Corporation (NDIC), Discount Houses and 24 deposit money banks in Nigeria was charged to move towards electronic-based transactions and reduce the amount of physical cash circulating in the economy. Electronic banking is a new retail cash policy which commenced in Lagos as a pilot state on January 1, 2012. The policy stated that over-the-counter cash N500,000 and N3,000,000 for individuals and corporate organizations respectively will attract a penalty fee of N100 and N1,000 imposed on individuals and corporate defaulters respectively. With the date set for the penalty fees to take effect on April 1, 2013. The policy implementation is expected to be in phases covering Port-Harcourt, Kano, Aba, Anambra and Federal Capital Territory (FCT) Abuja.

In the CBN document released in 2011, the bank clearly posted out the major objectives of the policy to include driving the development and modernization of payment systems in Nigeria; reducing the cost of banking services (which include the cost of credit); delivering financial services and improving the effectiveness of monetary policy; managing inflation, and encouraging economic growth.

Available reports had it that CBN in 2009, spent N114.5billion on cash management services alone and projected that the cost would rise to about N192billion by 2012 if Nigeria did not move away from cash transactions. Central Bank of Nigeria maintained that the cost of lending would reduce significantly if CBN by adopting e-payment platforms, saves the N192billion that would be used to manage cash. The CBN pointed out that 99 percent of current banking activities were cash based rather than electronic transactions as obtained in other economies.

As laudable as the prospects of this initiative may appear, stakeholders have continued to express divergent opinions over the practical implementation of this new policy, given the country's level of economic development. While those who endorsed the initiative see it as part of CBN's strategy to achieve Nigeria's goals of vision 20:2020, others criticize the policy as premature and hasty.

## **BACKGROUND OF THE STUDY**

Electronic Banking was introduced by the Central Bank of Nigeria to reduce the volume of cash in circulation and reduce the cost of cash production and transportation by encouraging the use of electronic payment systems. This policy was introduced by then governor of CBN. Alhaji, Sanusi Lamido sanusi in the year 2009. The policy was designed within 2010 and 2011 for the whole states in the country by Central Bank of Nigeria. The implementation stage started with the pilot phase in Lagos on January 1, 2012. First Bank of Nigeria plc were used in Lagos to test- run the workability of the policy from 2012 till middle of 2013, before the project kicked off in other states in the country namely Abia, Anambra, Kano, Lagos and Abuja the (FCT). In the year 2014, the policy was launched in all the states in the country.

Sanusi Lamido Sanusi adopted the policy to accelerate the use of electronic channels and reduced the use of cash. It means a society in which purchases of goods or services are made by credit cards or electronic funds transfer rather than cash based transaction. The whole idea of the new policy is to limit the volume of cash and to encourage other banking services to check fraud and inflation in the system. Also, cashless economy will encourage the use of cheques. CBN has introduced the policy on cash-based transactions which stipulates a cash handling charges on daily cash withdrawals or cash deposits that exceed N500,000 for individuals and N3,000,000 for corporate bodies. The new policy on cash- based transactions (withdrawals and deposits) in banks, aims at reducing the amount of physical cash (coins and notes) circulating in the economy and encouraging more electronic-based transactions. Cashless initiatives in Nigeria economy has impacted both positively and negatively but positive influence are more numerous.

## **STATEMENT OF THE PROBLEM**

Majority of the people in the country are businessmen trying to eke out livelihood through hustling and struggling, to survive on their own despite the ugly nature of the economy. However, a lot of Nigerians don't have access to bank accounts due to their illiterate nature and poor orientation. They are not oriented to save money in the bank. This is why the cashless policy was introduced by Central Bank of Nigeria.

For this electronic banking to be applied to these set of people, we have to give a second thought on infrastructural and systems failure in Nigeria. This is because the roads and electricity are not in good shape. These people are suffering and smiling. Few that have bank accounts hardly withdraw their money from banks. ATM cards are issued for withdrawing cash. For people in these states to adopt this policy, will be a journey of one thousand miles which may take time to be accomplished. Other commercial areas like Lagos which is the pilot state, Anambra, Abuja, kano and Porth-harcourt have more enlightened people.

The Central Bank is traditionally the apex bank of a nation. As the apex bank, it plays a major role in the economic development process of the nation. In Nigeria, as a developing country, the Central Bank has a mandate to perform the following key functions; management and promotion of a sound financial system; serving as a banker to commercial banks, and acting as financial agent to the federal government; ensuring monetary and price stability; issuing of legal tender currency in Nigeria, and maintaining external reserves to safeguard the international value of the legal tender.

As the financial agent of the federal government, the CBN introduces the policy to minimise money laundering, terrorist financing and other economic and financial crimes in Nigeria. More importantly the policy aims at reducing the amount of physical cash in circulation and encouraging more electronic – based transactions with a view to meeting the requirements of vision 20: 2020 transformation agenda (Business day 2012, September 14)

## **OBJECTIVES OF THE STUDY**

The main purpose of this study is to examine the issues and challenges of adopting cashless policy in Nigeria Economy. The objectives of the study are;

1. To examine the relationship between electronic banking policy by Central Bank of Nigeria and the Nigeria economic growth.

2. To assess if the electronic banking initiative of Central Bank of Nigeria has helped in reducing the amount of physical cash in circulation in Nigeria.
3. To proffer solutions that will reduce the cost of banking services and cash management in Nigeria banking sector.

### **JUSTIFICATION FOR THE STUDY**

1. This study will help in creating awareness on how to curb some of the negative consequences associated with the high usage of physical cash in the economy which include; high cost of minting cash; high risk of carrying cash about, which encourages armed robbery and other cash related crimes; corruptions like leakages and money laundering; and finally to formalise the informal economy where a lot of money is circulating outside the formal economy, thereby limiting the effectiveness of monetary policy in managing inflation and encouraging economic growth.
2. Available reports have it that CBN in 2009, spent N114.5billion on cash management services and by the 2012, it rose to N192billion. This study will reveal how cash management expenses will be reduced by moving away from cash transaction to cashless transaction via electronic payment transactions
3. Introduction of cashless policy has gone a long way in repositioning the nation's economy and making it relevant to the global financial environment through electronic payment and electronic commerce. This study is intended to highlight these.

### **SCOPE OF THE STUDY**

This study was carried out on the Nigeria's economy, precisely on the financial sector and banking sector. The study is being conducted on the impact of adopting Electronic Banking system in Nigeria Economy. Four states in the country, namely Lagos, Abia, Anambra, and Kano, and Abuja the Federal capital Territory (FCT) were used as case of study. The study covered the period of 2009-2013).

### **BACKGROUND AND REVIEW OF RELEVANT LITERATURES CONCEPTUAL AND THEORETICAL ISSUES**

The essence of the policy is to shift the economy from a cash based economy to a cashless one. Thus, it is geared towards engendering an efficient payment system anchored on electronic based transactions. This seeks to drive the development and modernization of Nigerian's payment system in line with her vision 20:2020 goal of being among the top 20 economies of the world by the year 2020.(Central Bank of Nigeria 2011). It is truism that an efficient and modern payment system is a key enabler and a sine qua non for driving growth and development. The policy also aims at improving the effectiveness of banking policy applies to all accounts, including collection accounts and the cash limits apply to an account irrespective of the channels (i.e. whether it is over the counter, ATM, third party cheques cashed over the counter etc). As far as cash is involved, any withdrawal or deposit that exceeds the limits attracts a service charge. The charge is born by the account holder and is about N100 per every N1000 that banks charge (This Day 2012, April 25<sup>th</sup>). The limit however, does not prevent customers to pay aforementioned penalty fees.

The implementation of the policy which is currently undergoing a test-run in Lagos is expected to be extended to other states of the federation from January 1, 2013. The apex bank has now decided to pursue the implementation in stages, beginning from five additional state and federal capital territory. These states are Kano, Anambra, Abia, River state and Ogun state, a state in the North Eastern zone of the country and the federal capital territory, Abuja (FCT) (Oketola, 2012).

Desirous of making the policy succeed, the apex bank has introduced a number of financial services which among other include mobile money payment system, point of sale (POS) terminals, alert an Automated Teller Machines (ATM). Essentially, mobile payment system introduced at the dawn of January 1, 2012 allows users to make payments with their GSM phones. It is saving device and transfer system that turns GSM phone into a saving account platform, allowing owners to save money in it and also make transfer. The point of sale terminals are installed by business and connected to the Nigeria interbank settlement system for the purpose of making payments during business transactions.

As mentioned earlier, one of the cardinal objectives of the cashless policy is to actualise the Nigeria's vision 20: 2020 agenda. What then is vision 20:2020 agenda? Vision is an economic transformation blueprint which articulates the long term intent to launch Nigeria into a part of sustained social and economic progress and accelerate the emergence and expression of Nigeria's intent to improve the living standard of her citizens, taking cognizance of the enormous human and material resources in Nigeria and drive the economy to be among the top 20 economies in the world with a minimum GDP of \$900billion and a per capita income of not less than \$4000 per annum (vision 20: 2020, 2009)

The economic blue print intent is aptly captured in the vision statement "By 2020 Nigeria will have a strong, diversified, sustainable and competitive economy that effectively harnesses the talents and energies of its

people and responsibly exploits natural endowments to guarantee a high standard of living and quality of life to its citizens. To achieve the provision of Nigeria Vision 20:2020 agenda, Efficient and modern payment system is paramount which the cashless policy initiative seek to address.

## RECOMMENDATIONS

The following were recommended;

1. The policy is commendable given the fact that transactions in goods and services in the Nigerian economy are heavily cash-based. This imposes enormous cost on the banking system and customer inform of high rates and other chargers. According to CBN, the direct cost of cash management to the banking industry in 2009 was N114.5billion with an estimated cost of N192billion by 2012. The spiralling cash management cost most of which is passed to customers in the form of bank charges and lending rates, is as a result of the country's cash dominant economy.
2. Desirable as the initiative is, its execution in Lagos is bedevilled with challenges. These include low level of public awareness, lack of point of sales (POS) terminals at most sales outlet, low literacy level among the citizens and absence of or unreliable communication infrastructure in rural areas.
3. Even with the extension of the penalty for default to April 2012. Stakeholders said that daily cumulative cash withdrawal and lodgement limits apply to ordinary and collection accounts, irrespective of channels such as over-the-counter, ATM, third party cheques cashed over the counter and master cards. Authorities in finance and banking sectors suggest that the policy needed some fine tuning so that people will conversant with it.
4. The policy involves a culture change which will naturally take some time to gain societal acceptance. Such a transformation policy although plausible, needs gradual implementation preceded by aggressive public enlightenment. Specifically, more media platforms, different languages with local means of communication should be deployed to market the new policy across the country.
5. In light of these, we recommend that the CBN increase the maximum amount that can either withdrawn or lodged daily by individuals and corporate organizations. We share the apex bank idea of test-running the policy before it takes off fully across the country. However, reasonable complaints during this period of trial should be taken into account in designing the final policy. With this, it will be a win-win situation for all stakeholders.
6. The aforementioned stakeholders as well as the law enforcement agencies should work co-operatively to give life to the cashless banking policy. This is because they have significant individual and collective role to play.

## CONCLUSION

This study examined the new cashless banking policy in Nigeria with a view to ascertaining the policy implications as well as to evaluate other policies of the Central Bank of Nigeria. It was motivated by a number of considerations. First, the financial sector has witnessed so many reforms without commensurate improvement in the standard of living of Nigeria. Secondly, there has been disagreement on what form money should guarantee the effectiveness of monetary policy. In order to achieve the objective of this study, the method of simple descriptive analysis were performed. The study also presented a review of literature on the research topic by ascertaining the strengths and criticisms of previous relevant studies. However, this paper was able to fill that gap.

The development of the innovation of electronic banking has the potential to transform economic activity and achieve developmental goals. If an effective electronic banking system can be developed and the above recommendations are carried out then it will have a desired impact on the Nigeria economy. Therefore, trusted Central Bank and government must play a key role in promoting the development of popular forms e-banking channels.

This study concludes with a final observation about the central bank's role in the development of the payment system. Over the next decade, there would be progress towards a cashless society both in Nigeria and other countries. In the presence of these trends, the responsibility of the central bank is to anticipate such change and channel it in such a way to ensure the safety, efficiency and effectiveness of domestic and international banking system. The policy involves a culture change which will naturally take some time to gain societal acceptance. Such a transformation policy although plausible needs gradual implementation preceded by aggressive public enlightenment. Specifically more media platforms different languages with local means of communication should be deployed to market the new policy across the country.

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