

The Implications of Legal Environment on Cashless Banking Practices in Nigeria

¹John N. Aliu, ²Rosecana G. Ankama & ³HauwaAliyu

^{1&3}*Department of Banking and Finance,*

²*Department of Legal Studies*

Kaduna Polytechnic, Kaduna, Nigeria

Abstract

Advancements in Communication Technology have impacted on virtually all sectors of the economy. In this regard, the banking sector is not an exception. The digression from crude banking system to more sophisticated banking operations has made banking transactions easier and comfortable. Banking transactions have also become cost effective. Cashless banking policy is driven by vibrant electronic system. In Nigeria, the electronic banking system has not been properly perfected, while the CBN cashless policy is fraught with loopholes. This paper examined the implications of the legal environment surrounding the implementation of cashless banking policy in Nigeria. Twelve (12) bank branches were covered in Kaduna, while both corporate and individual bank customers were sampled for the study. simple random sampling technique was used. Questionnaires were administered to both bank officials and customers. The study found that although cashless policy enhances speed of operations, it also could be costly where proper control measures are absent. The study recommends strict compliance with legal provisions, punishment of offenders to serve as deterrent measures as well as strict supervision by regulatory authorities.

Keywords: Cashless banking, Innovation, Legal environment and Regulatory framework.

Introduction

Cashless banking system has recently attracted significant attention from both the regulatory bodies in the financial service industry as well as the general public. Advances in technology have facilitated the adoption of electronic Banking (e-banking) in Nigeria. Electronic banking refers to services provided by banks using Information and Communication Technologies (ICT). Thus, e-banking involves computer-based systems used to perform financial transactions electronically (Agbada, 2008).

The banking sector in Nigeria has undergone transformation in the past decade. In fact transformation with several innovation driven improvements is still on-going in the Nigerian banking sector. The Nigerian Commercial banks have continued to spend huge amount of Naira on investment in technology based innovations and training of personnel to handle new technologies. Innovation consists of banks developing new products or new processes to better serve their customers. Innovation in financial services industry is viewed as the act of creating and popularizing new financial instruments, technologies, institutions and markets, which facilitate access to information, trading and means of payment (Solans, 2003).

Legal reforms in Nigerian banking System

Reforms in the banking sector refer to measures taken to correct distortions in the banking system. Among other reasons, reforms are embarked upon to ensure a well-functioning payment system. A reliable and efficient payment system is crucial to effective operation of monetary policy. In the absence of a good payment system, business transactions would be largely cash based (Uchendu 2010). This implies that the significant proportion of money in circulation would be outside the banking system. Between 2004-2010, Nigeria witnessed two major banking reforms. Each of these reforms posed peculiar challenges to both the regulators and operators. The reforms forced some fundamental changes in Nigerian banking and indeed changed the face of Nigerian banking for good (Adadipe, 2010). The Central Bank of Nigeria (CBN) introduced the Cashless banking policy in Nigeria in 2012. The policy was introduced for some reasons including:

1. To drive development and modernization of Nigeria's payment system in line with Nigeria's vision 2020 goal of being amongst the top 20 economies by the year 2020.
2. To reduce the cost of banking services and promote financial inclusion through a more efficient financial transaction activities.
3. To improve the effectiveness of monetary policy in managing inflation and facilitation of economic development processes.

Literature Review

Cashless banking is essentially about making use of the digital infrastructures by banks to provide enabling environment for payment systems locally and internationally. Gbede (2003) explained that cashless banking is the use of computers as well as automated machines to provide banking services. Umoren (2006) observed that "in its beginning, in the second half of the 20th century, e-banking was basically about funds transfers and inquiry. It has grown, especially in the last two decades to become the deployment of some or all operations of a Banking Service Provider (BSP) electronically".

One of the e-banking products common to most consumers is the Electronic Fund Transfer (EFT). According to Macdonald and Koch (2006:272), EFT is an electronic movement of financial data designed to eliminate the paper instruments normally associated with such funds movement'. EFT transactions are carried out by various methods and channels, including Automated Teller Machines (ATMs), Automated Clearing House (ACH), Point of Sales (POS) devices, Short Message Services (SMS), Mobile phone, among others (Echikson, 2001).

Obviously, the adoption of e-banking services in Nigeria is still evolving. Efforts are being made by banks to improve on services and many have recorded huge successes in e-banking development. The Nigeria Deposit Insurance Corporation (NDIC) 2004 annual report stated as follows: "To further improve the efficiency of the payment system, the Central Bank of Nigeria (CBN) has issued the broad guidelines on electronic-banking. The guidelines indicated that e-banking practice would continue to be promoted in line with international practice (Echekoba and Ezo, 2012).

Although this study focuses on Nigeria, it is difficult to translate cashless studies from one country to another. Even payment instruments that look similar across countries on the surface may be different due to historical and legal variations. In the Nigerian monetary system, the Central Bank of Nigeria (CBN) is pursuing the cashless banking system that would see the following implications:

- a. Reduction in cash transactions to both the banks and their customers;
- b. Expansion in vault cash;
- c. Expansion in the credit creation process;
- d. Expansion in the involvement of the informal sector in the banking process. CBN (2011)

These implications follow directly from the surface of the policy but there is the need for a deeper economic analysis of the introduction of the cashless banking or cashless economic paradigm and its attendant implications as far as the attainment of advanced economic objectives are concerned. Dillon and Moreris (1996). The growth of cashless banking has been astronomical and the prospects for further growth in future are quite bright. This was the view of Akpan (2008), when he said that within one year, the number of Automated Teller Machine (ATM) cards issued rose by 200 percent from 4 million to 12 million in 2007.

Channels of Cashless Banking

The most common channel of cashless banking include; Automated Teller Machines (ATM), Debit and Credit cards, point of sales (POS) terminals, mobile banking, internet banking and electronic funds transfer.

Financial innovations allow firms from all sectors to raise fund in larger amounts and at a cheaper rate than otherwise they could (Lener, 2006). It is therefore, obvious that there is the possibility for a bank to minimize costs and expenditures. The main benefit from cashless banking innovation is fee based income (Dew, 2007). In an ATM Network, a bank can generate income from other banks' customers that use it's ATM or from third parties that cooperate with it.

Amirt (2007) suggests that cashless banking is driven largely by the prospects of operating costs minimization and revenues maximization. A comparison of on-line banking in developed and emerging markets revealed that in developed markets lower costs and higher revenues are more noticeable. While Sullivan (2000) finds no systematic evidence of a benefit of internet banking in US click and Mortar banks. Brancheau and Whetherbe (1990), in their study on the impact of internet banking on bank performance and risk found out that on the average internet banks are larger, more profitable and are more operationally efficient.

Constraints of Cashless Banking in Nigeria

The challenges facing cashless banking in Nigeria can be grouped into two classes: Infrastructural and operational.

1. **Infrastructural Challenges:** Inadequate supporting infrastructures such as energy, efficient telecommunication services are great source of worry for electronic banking in Nigeria. Kurfi (2008) observed that epileptic power supply is a major source of problem for both Banking service providers (BSPs) and consumers.

Problems associated with encryption of data being transmitted over the air on mobile phones services is also another cause for concern. Aging facilities and high cost of equipments and maintenance cost all add up to limit the effectiveness of cashless banking policy in Nigeria.

2. **Operational Challenges:** Operational challenges are problems associated with cashless banking operations which include electronic frauds and security issues. Internet banking, ATMs and Mobile banking appeared to be too vulnerable to fraud. The issue of security with regard to electronic banking is of great importance. Mobile phone banking involves transmission of financial information over the air and can be a veritable opportunity for Hackers and other criminals to perpetrate their illegal acts.

Banks information technology departments and mobile application developers will need to jointly co-operate to face this challenge head on. Encryption of data being transmitted over the air and other security measures will be necessary to curb this menace (Kurfi, 2008).

Objectives

The main objective of the study is to investigate the implications of legal environment on Cashless Banking practices in Nigeria.

Specifically, the study seeks to:

1. Examine the relationship between cashless banking policy and the Nigerian economy.
2. Establish the adequacy or otherwise of the legal and technical environments of cashless banking in Nigeria.

Research Hypothesis:

H₁: There is a significant relationship between cashless banking policy and the growth of Nigerian economy.

H₂: The Nigerian legal and technical environment is sufficient for cashless banking practices.

Methodology

The research instruments used to collect data for this study include interviews, questionnaires and observations. The focus of the study is on cashless banking practices in Nigeria. Eighty (80) respondents were randomly selected from amongst the bankers and their clients.

Results sand Discussions

Table 1: There's a relationship between cashless banking policy and the growth of Nigeria economy.

Subject	No	%	T-calculated	Table Value	Decision
Agreed	52	65	3.42	2.000	Reject H ₀
Disagreed	28	35	-21.84	2.000	Reject H ₀

Source: Authors' computation from field survey
Level of significance 0.5

From the table above, it is clear that the t- calculated is greater than the table value. (i.e.). Therefore, the null hypothesis is rejected. The alternative hypothesis is accepted. We can safely conclude that there is a significant relationship between cashless banking and the Nigerian economy. This result also confirms suggestions from the literature that cashless banking have facilitated provision of efficient services rendered by the banks. The introduction of electronic banking can be said to have a strong influence on the development of payment systems in Nigeria.

However, some of the respondents were of the view that cashless banking system in Nigeria attracts more costs on the part of the consumers. This is seen in associated bank charges such as ATM cards, and SMS alert charges.

Table 2: Sufficiency of Nigeria's legal environment and Technical facilities.

Subject	No	%	T-calculated	Table Value	Decision
Agreed	20	25	-13.89	2.000	Accept H ₀
Disagreed	60	75	0.78	2.000	Accept H ₀

Source: Authors' computation from field survey

Level of significance: - 0.5

It is clear from table 2 above that the t-calculated is less than the table value, the alternative hypothesis is rejected and the Null hypothesis is accepted. We conclude therefore, that Technical facilities and legal environment in which cashless banking practices operate in Nigeria is insufficient. Infrastructural deficiencies, such as constant power outages, inadequate communication network, electronic fraud and even human constraints are prominent factors militating against cashless banking in Nigeria.

Conclusion

Cashless banking has gained acceptance in Nigeria on a rapid rate. The cashless banking policy has curbed some negative consequences associated with high usages of physical cash in the economy, including; high cost associated with high volume of cash handling. High risk of using cash (robberies, fire etc) and other fraudulent activities are reduced by the adoption of electronic Banking.

However, inadequate infrastructural facilities, high cost of replacing aging facilities and constant power outages are major factors militating against cashless banking practices in Nigeria. The legal environment also need to be strengthened. Cashless banking has proved to be a welcome innovation in the Nigerian banking industry.

Recommendations

From the findings of this study, the following suggestions are essential for the efficient functioning of cashless banking in Nigeria:

- i. Government should provide uninterrupted power supply.
- ii. Encryption of data being transmitted through the air should be done to minimize electronic fraud.

- iii. The legal environment should be strengthened by ensuring adequate laws, and timely punishment of offenders to serve a deterrent to others.
- iv. Banks should collaborate with each other to jointly finance the electronic payment system because of its capital intensive nature.
- v. Skilled personnels should be employed to man technical areas in the banks. Training and retraining of staff in modern technology should be accorded a priority attention by banks.

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