

NIGERIAN PAYMENT SYSTEMS THROUGH ELECTRONIC BANKING (E BANKING): A REVIEW

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ABSTRACT

The paper reviewed the payment systems through electronic banking (e- banking) as implemented in Nigeria. The e- banking in Nigeria was introduced in year 2010 and first implemented in Lagos in the year 2012 was embraced by every citizenry and to some extent has impacted positively on the Nigerian economy.

Reduction in cash transaction has been experienced, fast settlement of bill, convenience in cash withdrawals and other benefits are a function of the implementation of the e-banking.

However, with the review of the various e-payment systems, a lot still need to be tackled by the various agencies concerned. Upgrading of infrastructural facilities in the country, provision of security, internet connection, education of the illiterates, obeying the monetary rules as set by the Central Bank of Nigeria (CBN) are vital issues to smooth-run the e-banking policy.

It was therefore suggested that e-banking policy, the e- banking would be successful like it is in other nations of the world, if properly handled and the better for the economy of Nigeria.

Keywords: *Cashless Economy, E – Banking, Payment System, Inflation, Money Transfer*

INTRODUCTION

Payment system can be viewed as an arrangement consisting of institutions, instruments, organizations, operating procedures, and information and communication systems, usually within a nation's financial system, used to initiate and transmit payment information from payer to payee and to settle payment or discharge financial obligation among economic units (Ojo, 1998).

In Nigeria, the need to improve the payment systems has become increasingly important having realized that the design of payment system has important implications for the conduct of monetary policy, the soundness of financial institutions and the functioning of the economy at large. More so, in this era of dwindling financial system stability in Nigeria which has resulted into erosion of confidence by the populace, the need to pay more attention on the status of the Nigerian payment system via the Electronic Banking (E-banking) is very germane. It is therefore hoped that this paper would bring out some of the challenges hampering the effective payment system through the use of banking electronic gadgets and

prefer some solutions for the use of such gadgets in Nigeria to stand the test of time like we have in developed nations of the world.

THE CONCEPT OF PAYMENT SYSTEM AND E-BANKING.

The “term payment system” according to Balino et. al (1996) is defined as “the instruments, organization, operating procedures, and information and communication from payer to payee and to settle payments, that is, transfers of money”. According to Ojo(2010), payment instruments take many forms, such as cash, cheques, dividend warrants, travelers’ cheques, money orders, debit and credit cards, wire transfers, automated clearing house transfers, smartcard value card, point-of-sale(POS) and automated teller machines.

As put by Anyanwaokoro(2001), payment system is defined as a system where settlement of financial obligations are done by the use of credit cards or even payers pressing some buttons that transfer the amount in their banks to the accounts of other persons through the computer. Others such as Edet(2008), Oleka(2009) and Mundu (2010) conceived payment system as a system which consists of different methods of payments which are cheques, credit cards, bankers drafts, standing order, documentary credit swift etc. for the efficient settlement of transactions.

An efficient payment system therefore is supposed to perform the following functions.

- (i) Fostering a sound financial system and economic growth.
- (ii) Development of financial sector in order to serve the needs of the real economy.
- (iii) Transformation of banking systems and emerging money markets.
- (iv) Development of business transactions both locally and internationally.
- (v) Promotion of efficient allocation of financial resources through the reduction in payment risks and transaction costs.

Electronic banking (E- banking) involves collaborations (local and international) on payment system, cashless transactions, digital cash and other electronic based projects. It is essentially about banks using new age methods and tools to expand into new banking markets and grow. Edet (2008) saw the concept as a phenomenon which uses infrastructure of the digital age to create opportunities both local and global. E- Banking enables the dramatic covering of transaction cost and the creation of new types of banking opportunities that address the barriers of time and distance.

TYPES OF ELECTRONIC PAYMENT SYSTEM IN NIGERIA

In Nigeria today, the following are the common types of electronic payment system.

- (i) **The card system-** The card system is a unique payment type. The smart cards are plastic devices with embedded integrated circuit being used for settlement of financial obligations. The power of cards lies in their sophistication and

acceptability to store and manipulate data, and handles multiple applications on one card securely (Hodagho, 1996). This card device encompasses debit card, credit card, visa card etc.

- (ii) **ATM card** – This is a chip device consisting of circuit element on single silicon chip. It is used by customers to perform balance inquiry, mini statement and cash withdrawal as well as transfers through the use of automated teller machines. The card can also be used for internet/ online fund transfer.
- (iii) **Point of sales (pos) system-** a point of sales machine is a payment device that allows credit/ debit cardholders make payments at sales/ purchase outlets. It allows customers to perform services inquiry, airtime vending, loyalty redemption, and printing of mini statement.
- (iv) **Electronic web collection-** This enables the bank to partner with Universities and higher institutions of learning handle admission, registration, examination management, fees collection needs and results publication management.
- (v) **Mobile Banking system-** This is a system that offers customers of banks to access bank services on motion. With this, customers can make their transactions anywhere such as account balance, transaction enquiries, stop checks, account verification, bill payment and electronic fund transfer.
- (vi) **Western Union money transfer (WUMT)** – This is a bank product that allows people with relatives in Diaspora who may be remitting money home for family upkeep, project financing, school fees etc. Banks in different locations (foreign and local) serve as the receiving and disbursing points respectively for the parties involved.
- (vii) **Telephone Banking-** This is a medium through which a customer of a bank can assess and link the bank's computer centre through telephone lines. Services rendered through telephone banking include account balance, funds transfer, change of pin, phone recharge and bill payment.

IMPLICATIONS OF E-BANKING ON NIGERIAN PAYMENT SYSTEMS

In Nigeria, under the e- banking policy, the goal of the policy is to discourage cash transaction as much as possible. The Central Bank of Nigeria (2012) had set daily cumulative withdrawal and deposit limits of ₦150, 000 for individuals and ₦1,000,000 for corporate entities (non reviewed to ₦500,000 and ₦3million respectively) Penalty fees of ₦100 and ₦200 respectively. (now reduced to 5% and 3% respectively are to be charged per extra ₦1000. As noted above, the e- banking economy does not imply an outright end to the circulation of cash (or money) in the economy, but that of the operation of a banking system that keeps cash transactions to the barest minimum. The operation of the system does not mean that individual or corporations cannot hold cash in excess of their given limits at single point in time but that their cumulative cash transactions with the bank must not exceed these

limits over a period of one day (Alawiye, 2012.).The system is targeted at encouraging electronic means of making payments, and not aimed at discouraging cash holdings.

The expectation of this e-banking policy is that instead of making large withdrawals to effect payment for goods and services, such monies will be kept in the banking system so that payments are made through “credit card-like means”. In this system, users are issued with electronic cards which can be slotted into special electronic machines in order to effect payment. At the centre of such payment systems are the Automated Teller machines (ATM) and the point of sales (POS) terminals which are deployed across commercial points in the country. The policy and the payment systems have been heralded by the citizens of Nigeria as can be seen from the table below, (though with some hitches).

Table1. Customers’ transactions in Nigerian banks in 2010

Payment channel	Transaction volume
ATM withdrawals	109,592,646,
over the counter cash withdrawals	72,499,812,
Cheques	29,15 9,960
Pos	1,059,069
Web	2,703,510

Source- CBN Website, 2013.

A REVIEW OF THE NIGERIAN ELECTRONIC PAYMENT SYSTEMS

For the various electronic payment systems to work optimally in Nigeria, certain adjustments are to be made.

Through the electronic banking has been a welcome development in Nigeria like any other nation, some key areas need to be monitored by both the government and the Central Bank of Nigeria (CBN) for effective usage of the various payment system discussed so far.

- I. As observed by Ayodele (2014), constant power failure has led to deficiencies in infrastructures such ATMs, computers etc, which slow down the rate of electronic transactions. Also failure of links from communication providers has also served as a clog in the wheel of e-banking progress in Nigeria, thereby rendering some of the electronic payment systems ineffective. The ineffectiveness of these infrastructures has not really reduced the long queue experienced around the banking hall.
- II. Deprivation of some group in the society – Some groups in the Nigerian society are unconsciously deprived from the benefits of e payment systems. These groups include the illiterates and the handicapped. Up till now, nothing has been done to improved on the banks infrastructure so that the blinds and the those who cannot read the commands on the ATMs enjoy the overall benefits of the e-banking gadgets. Many illiterates have been defrauded by the smart educated ones who pretended to be of

- assistance at the cash withdrawing points. Hence, the usage of e -banking gadgets seem very complex to this category of people.
- III. According to Oladayo and Adeniyi (2014), unreconciled interbank transactions are compounding the uses of ATM holders. Coupled with this is the inability to track down fraudsters at the ATM points including computer hackers who have contributed as a great menace to the smooth use of various payment instruments via e-banking. Only little has been done in this regard.
- IV. Insider abuse is another challenge being experienced in the Nigeria banking system. There has been a reported case of some ATMs dispensing fake national currency. This is an embarrassing situation we are still battling with in Nigeria perpetrated by the bank workers. The bank managers are to be at alert so that this terrible situation can be handle appropriately in order not to cause untold hardship for the innocent populace.
- V. Currently in Nigeria, lower denominations apart from ₦1000 notes, are not normally stored in the banks' ATMs for onward dispensation. This trend if continues may lead to inflation where people will only have access to the highest currency denomination in the country.
- VI. With advent of e- baking in Nigeria, one thought the issue of arm robbers carting away money from the banking halls would be a foregone issue in Nigeria. Unfortunately, the arm robbers today are more equipped than before to the extent of dismantling some ATMs in some cases to achieve their objectives. This means that the Nigerian governments through the various security agencies need to buckle up in order to overtake the advancement of these hoodlums so that the benefit of e-banking can be enjoyed as in the case of other nations.
- VII. Lastly, Nigeria is still lagging behind in the execution of rule of law. Billions of naira in bulk to the rule of e- baking are still transacted in some quarters especially among the politicians and some government officials. This is not a good omen for the country if truly we are committed to the smooth implementation of e-banking which has really paid off in most economies of the world. The various e- payment systems are in position to tackle this problem if the few 'giants' would stop frustrating the system.

CONCLUSION AND RECOMMENDATIONS

From the write-up, it has been shown that the various payment systems through e-banking are welcome developments in the Nigerian financial system. This has been the current trend all over the world.

The e-payment systems have really solved some problems like possibility of withdrawal cash on weekends like Saturdays and Sundays, collection of funds at one's convenient time, payment for goods without really holding cash both at local and international markets, transmission of financial information and time saving especially during cash collection, etc.

However, the e- payment systems still struggle with infrastructural decay in the system, insider abuse on the part of the bank workers, arm robbery attacks, dispensation of only N1000 (the highest denomination in the country) and movement of cash by the Nigerian politicians as against the essence of the implementation of e- banking in Nigeria.

The researcher is of the opinion that the Nigerian government should still improve on the infrastructural facilities on the ground so that the power supply and the internet structure can work maximally. The security should also be beefed up to curb the activities of the arm robbers in the country. Enlightenment campaign on the use of the e-payment gadgets can be instituted to help the illiterates and the handicapped so that they can also benefit from the usage of such gadgets.

Lastly, various currency denominations should be allowed through the dispensing centres in order to curb inflation and the government and politicians should be more disciplined in cash handling so that the usage of the e-payment instruments can be a successful agenda in the country.

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