Implications of Introducing Cashless Policy in Nigeria

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Abstract: Cashless policy is necessary for the development of efficient payment system, which induced efficient and seamless transmission of funds from one individual to another and from one sector of the economy to another. It also leads to deepening of financial market, which will ensure a sound and resilient economic development in Nigeria. The central pillars of cashless policy are financial inclusion and financial literacy; the financial inclusion encourages the unbanked to open accounts with various banks while financial literacy enlightens the citizens the importance of opening accounts with the banks.

The policy will be technologically driven by the application of e-banking processes, therefore such core banking technologies that will be deployed to drive the scheme will be examined, the merits and demerits of cashless policy will also be analyzed and recommendations will be highlighted as well.

I. INTRODUCTION

The main exchange of value in Nigeria is cash and inflation. Emphatically stated, Nigeria is cash based. People prefer to transact their businesses with cash, rather than any other form or mode of transaction. Despite the effort of the Central Bank of Nigeria (CBN) to reduce the use of cash to bare minimum, cash continues to be a dominant factor of transaction in Nigeria. The introduction of cashless policy in Nigeria timely as the use of cash will be minimized. The need for this scheme is for Nigeria not to be left behind in the ever changing technology, when the means of payment are now being dominated by e-payment in the developed countries.

Cashless Policy facilitates digital mode of payment and transfer of value and discourages the use of cash in financial transactions. It is technological driven. Yaqup J.O.(2013) et al further observed that the following among others enhance the functioning of cashless economy; e-finance, e-banking, e-money, e-brokering, e-exchange, etc.

CBN being proactive has introduced the cashless policy in 2012 and stipulated certain fines that should be imposed on co-operate bodies and individuals who withdrew or deposited more than stipulated amount on daily basis, N500, 000 for individuals and 3,000,000.00 for Cooperate Bodies. It should be noted that there was a test run in Lagos in January 1, 2012, and March 30, it took off completely in Lagos by allowing seamless migration from the manual to electronic device. And the second pilot stage was in Rivers, Anambra, Abia, Kano, and Ogun States and the Federal Territory on July 1, 2012 and it became nationwide on July 31, 2014. (Business day online 2015)

The operation of the cashless policy was articulated by Wikipedia (2015) “The key policy notes were as follows; withdrawals above N150, 000.00 on all Third Party Cheques can only from merchants, receive value through Clearing House and not across the counter. Under this policy Bank no longer permit to pick up each services from merchants, while the Licensed Cash in Transit Companies were permitted, 3% Cumulative charges are administer on daily cumulative withdrawal in excess of N500, 000.00 for individual while 5% cumulative charges administer on daily cumulative withdrawal in excess of N3 million and the charges on this transactions is borne by account holder.” The above penalties are to ensure compliance and for the easy take off of the policy.

However, it is understandable that CBN will encourage cashless policy because most transactions in the developed country are done without cash. This is supported by the research carried by MasterCard in affirmation that 80 percent of transactions in the U.S are electronic, while in Sweden only 3 percent of transactions are made with currency which means 97 percent is by electronics. Therefore, the quest for CBN to keep in line with the International best practice in respect of payment system in the economy has therefore given it the impetus to formulate and implement cashless policy. Also, in view of the fact that one of the core functions of the CBN is to promote a sound financial system in Nigeria.

II. VEHICLES EMPLOYED TO DRIVE THE CASHLESS POLICY

We need to point out for cashless policy to be effective in Nigeria; Information Communication Technology (ICT) must be deployed to be the strategic weapon to drive the electronic banking services. Cashless scheme is therefore is digital driven transactions. Bamidele, A (2005) posited that the major attraction of the system include the speed and convenience it offers consumers and bankers in effecting banking and other financial transactions round the clock. In view of the above, any financial transaction that facilitates exchange of value without currency may in fact be regarded as cashless transactions. The mechanisms that aid such banking service delivery are examined as follows: ATM, POS, Internet banking, mobile banking with aid of hand sets, EFTS, and RTGS etc. We have also Bitcoin and Crypto currency.

Automatic Teller Machines (ATMs): In the developed countries ATMs was developed in the 1980s but in Nigeria the ATMs started in 2004, after the Consolidation Policy
2004, which lead to astronomical increase in the liquidity of Deposit Money Banks (DMDs). The bank that wants to maintain its strategic position or to capture more market segments has to deploy banking technology as a means of financial service delivery.

However, the use of ATM increases tremendously after the adoption of cashless policy in Nigeria. The ATMs are normally located at the bank premises because of security reasons. Many banks in Nigeria were reluctant to establish ATMs outfit until Central Bank of Nigeria (CBN) gave them incentive of N65 per withdrawal and that triggered a massive establishment of many ATMs and more ATM galleries in various bank locations, and that ushered in greater use of electronic banking.

The services provided by ATM are many; such as withdrawal and transfer of funds, payment of bills, and purchase of aircrédit from different GSM providers, deposit of funds and generation of bank statements. The use of ATMs has actually decongested the banking halls where customers spent hours to transact banking businesses. The customers are now excited as ATM provides 24 hours services, in fact there is unrestricted hours of service which are provided to the customers.

However, in some cases the customers are frustrated because the ATMs are not well funded and the functionality of many ATMs may be defective as they break down constantly. The network is very poor and that leads to the frustration of the customers. Consequent upon, the long queues previously experienced in the Banking hall are now shifted to the ATM centers.

**Electronic Funds Transfer at Point of Sale (EFTPOS):** This is electronic gateway that facilitates payment for goods or services purchased; the account of the purchaser is automatically debited with the cost in favor of the provider of the goods or services. This means of payment becomes widespread as result of introduction of cashless policy in Nigeria. It is a naked fact that EPTPOS has reduced the use of cash in Nigeria; stimulating a paradigm shift from cash society to cashless society.

In Nigeria banks supply the retail outlets with their EPTPOS machines which must be recognized by the bank. Again both the seller and the buyer must know the faith of transactions by viewing the screen which will write ACCEPTED if the transaction has been paid for or REJECTED if the transaction is declined.

The main advantages of the EPTPOS, the supplier is instantly paid as the account of the customer is automatically debited with the cost of the goods or services purchased. It helps to reduce queuing in the stores and retail outlets. While the customer do not need to carry cash but it will enable him to pay to whatever goods he purchases, therefore the transaction is a win-win situation for both the seller and the buyer. But unfortunately, many Nigerians are used to carrying cash than using the EFTPOS, more especially in the rural areas. They view such electronic device with suspicious claiming the machine is capable of defrauding them. It is believed that the use of EFTPOS has a brighter future in Nigeria as both the retailers and the consumers are now realizing the inherent advantages of such electronic devise.

**The Bankers Automatic Clearing Services:** (BACs): The electronic system allows the bank to transfer money for a customer from his account to the account of another customer with the bank or any other bank without going through the normal clearing House. The transaction of fund transfer is done by mere completing of teller and handing it over to the cashier for processing. The customers’ account is automatically debited while the payee is credited at the same time. This electronic device allows the following transactions to be executed: direct debit payments, standing order payments, dispersal credits and third party payments. The introduction of BACs has gone a long way to improve the transfer of money and reduce the use of cheques as a means of payment and this has triggered the development of cashless society.

**Computer Electronic Devices:** The consolidation policy of 2004 triggered stiff competition among the banks and in order to capture and maintain the loyalties of customers they have to deploy sound marketing strategies. One of those strategies was the employment of electronic banking: such as lap tops, desk tops, tablets, and handsets as tools for electronic banking. At the comforts of customers homes or other places, a customer can undertake many banking transactions without visiting his banks and these inclusive of funds transfer, checking of balances, viewing of statements of accounts, purchase of air credit from different GSM providers, payment of routine bills such as water rent, electricity bills, DSTV bills, Internet providers such as Spectranet, and Smile etc. The application has revolutionaries banking in Nigeria, while it offers the customers easy banking solutions, it also reduces cost of providing services to the customers by the banks and helps to enhance banking inclusion policy and facilitates the cashless policy as well in Nigeria. In fact, millions can be moved from one bank to another without currency movement.

**REAL- TIME GROSS SETTLEMENT (RTGS):** The RTGS may be regarded as the bedrock upon which the cashless policy rests, because it facilitates the transfer of funds and other securities from one account to another in the same bank and from one account to other in different banks. The cardinal feature of the RTGS is that payment is done in real time that is instantaneously and immediately the process is initiated, while gross payment means that payments are done in one basis without bundling or netting out each other. And settlement means the transactions are processed and payment is irrevocable. This electronic fund transfer is therefore a mechanism for speedy transfer of funds which is being coordinated and operated in the Central Bank in Nigeria. It is observed that the objective of introducing this electronic platform is to reduce the risk involved in the transfer of high volume fund from one account to another.
It must be mentioned that the width and breath of financial market of Nigeria is very shallow and the introduction of RTGS has greatly widened the scope of payment system with a strong believe, that a strong and a well-developed payment system are necessary for a sound and resilient financial market. The above view was supported by Biago and Massimo (2001) when they asserted that Economics believe that an efficient national payment system reduces the cost of exchanging goods and services, and is indispensable to the functioning of the interbank, money and capital market. And based upon this, the Central Bank of Nigeria compelled the Money Deposit Banks (MDB) to key into the platform. It is of strong strategic importance to the banks to join the platform, because it is essential for efficient services delivery of their financial products and will assist them to capture more market segments in the stiff competitive financial market.

The need for efficient and effective RTGS cannot be emphasized despite, its ability for speedy, safety and non-risk system for transfer of funds; it is also a mechanism for creating efficient payment system which is the heart of effective financial market that ginger economic development. According to Bamidele (2005) RTGS provides the backbone for advanced and sophisticated payment and settlement.

**Bitcoin and Crypto Currency:**

Another financial asset that has the ability to reduce drastically the use of cash in Nigeria is Crypto currency which is a means of exchange in a digital currency. Andy Greenberg (2011) captures the above clearly when he defines crypto currency as a digital asset designed to work as medium of exchange using cryptograph to secure the transaction and to control the creation of additional unites of currency. They are a subset of alternative currencies, or specifically of digital currencies. The cryptograph is designed for security and anti-counterfeiting measures as the currency is created by fiat.

The first crypto currency to be created is Bitcoin in 2009. The main feature is that it is decentralized unlike the traditional currency that is centralized. However, Satoshi Nakamoto created the underlying technical system upon which decentralized crypto currencies are based. It must be noted that currently hundreds of crypto currencies has been created and most of it are not all derived from the decentralized bitcoin. Accordingly to Jerry Brito and Andrea Castillo posited that crypto currency systems that the safety, integrity and balances of ledgers is maintained in a community of mutually distrustfully parties referred to as miners: members of the general public using their computers to help validate and timestamp transactions adding them to the ledger in accordance with particular time stamping scheme.

However, some of the characteristics of bitcoins currency, it can be sold online, and offline as well; that of offline involves direct purchase while that of online is normally very risk and with the use of ATM facilities. Another characteristics is that the price has a high level of volatility which is seven times greater than gold or and eighteen times greater than U.S. dollar according to Mark T. Williams (2014). The reason may be as result of lack of stabilization and insufficient mechanism.

Despite the above, the legality of crypto currency serving as a medium of exchange and as legal tender differ from one country to other, while in America and other Developed Countries it can be accepted, in Nigeria it is yet to be accepted and adopted. To that effect, CBN has set up a committee to examine the acceptability of the crypto currency and recommend the necessary operating laws and how it will enhance the financial system.

Crypto currency is open to large scale fraud for example on March 31, 2015, two new former agents from the Drug Enforcement Administration and the U.S. Secret Services were charged with wire fraud, money laundering and other offences for alleged stealing bitcoin during the federal investigation of Silk Road, an underground illicit black-market federal prosecutor shut down in 2013. Perez, Even (2015).

**III. THE POSITIVE IMPACTS OF CASHLESS POLICY**

**A Sound Monetary Policy formulation:** The CBN is of the view that the cashless policy will play a catalytic role in formulation and implementation of monetary policy. If the economy goes cashless, the use of cash will be reduced in the economy while electronic banking transaction will now drive the economy, and more information will be in the hands of the CBN for critical policy manipulations and interventions. Monetary Policy involves controlling aggregate money supply in order to ensure price and monetary stability and going further maintaining balance of payment stability, and exchange rate stability with the utmost aim to create full employment and foster equitable income. It is believed that the fostering of cashless scheme will be critical in the achievement of the above economic aggregates. More especially when “about 65 per cent of the cash-in-circulation is outside the banking system.” CBN Brief (2012-2013)

**Ensuring effective and efficient payment system:** Noting the fact that, one of the coremandates of CBN is to ensure efficient payment system, through promotion and development of efficient and effective settlement system. Succinctly put, CBN is of the view, that effective development of electronic payment system will enhance its objective of deepening and widening the payment system. It is also believed that the scheme will create a pinnacle for effective and efficient payment system which will be empowered by electronic banking. This is noted by CBN Economic and Financial Review (2004), the monetary authorities’ avowed objectives is to ensure banking soundness and financial sector stability with a view to improving the efficient of payment systems and effective transmission of monetary policy to the real sector.

**It will lead to reduction of corruption in Nigeria:** One of the hydra headed problems facing Nigeria is corruption which
manifests itself for lack of accountability and transparency. It also believes that introduction of cashless policy and inclusive of BVN (Bank Verification Number) is holistic approach to reduce corruption to its barest minimum. It will ensure audit trail and make it possible to trace the rightful owner of any fund transferred or lodged into any account. Corruption in Nigeria is very endemic and intractable; therefore any policy that will reduce it will be a positive steep, more especially if the policy will be sustainable.

Cashless policy will aid the law enforcement agents to track down all illegal transactions such as money laundering, terrorism financing, bribery and any other illegal transactions that will impact negatively on the economy.

It will reduce currency outside banking sector: It is envisaged that cashless policy will go a long way to reduce currency outside the banking sector. Nevertheless to state, that Nigeria is cash based economy, this is supported by Ovia(2002) in Yaquab J.O et al (2013), that 66 percent of currency is residing outside the economy as against the developed world where the currency in circulation is 4 percent in US, and 9 percent in UK. This is because financial transactions in the developed countries are done with the aid of electronic banking tools which can only be possible if their funds are deposited in the banks. In order words, it will trigger and encourage financial inclusion in the economy as many unbanked will be forced to open bank accounts in the various financial institutions and therefore prevent leakages. Consequently, the policy will lead to the provision of financial liquidity to the banks and make it possible to lend to the real sector to stimulate economic growth.

Convenience in banking for the customers: The introduction of cashless policy is a catalyst for the employment of electronic banking processes and customers can now undertake their financial transactions at the comfort of their homes. It also provides and increases convenience in banking, more service options, while it decreases the risk of carrying money from one point to the other which reduces to the barest minimum theft and other related mishaps. More especially, the scheme will reduce the risk of payment and settlement in cash as most of the transactions will now be done electronically. Furthermore, cashless society enhances efficiency in the banking sector: according to CBN Briefs (2012 -013) edition, for banks it will enhance efficiency through electronic payment processing, reduced cost of operations (cash handling) and increased banking penetrations.

It will reduce operational cost for both CBN and Banks: It will surely reduce the cost of printing, counting and even movement of currency. The risk of constant movement of currency by CBN and the banks will greatly be reduced as well. However, for the Deposit Money Banks it will trigger reliability on electronic banking and usher in automation of banking processes that will go a long way to reduce operational cost for them. Therefore, ensuring seamless, efficient and effective service delivery by the banks and eliminate the time occasioned by manual banking as many customers will now transact their banking business at the comfort of their homes and offices.

IV. CHALLENGES OF CASHLESS POLICY IN NIGERIA

Despite the above mentioned numerous advantages, they are certain critical challenges facing the smooth adoption of the scheme.

Iliteracy: There is a high level of illiteracy in Nigeria, more especially in the rural sector of the economy. It needs not to be mentioned that will make it highly difficult for the adoption of e-banking products such the use of ATMs, EFTPOS and mobile banking that quicken the process of transferring money and making payments, ensuring virile and vibrant cashless society. It needs not to be mentioned that for e-banking to be successful, the citizenry needs a certain level of literacy to operate various banking technology devises and therefore fully utilize the full benefits of such devices.

Unreliability of banking Network: there is constant break down of network employed for banking applications, in most cases banking transactions cannot be completed by the customers or even the bank workers because of the unreliability of the banking network. Strictly put, this may erode the confidence of the customers in the banking system and the use of banking technology and makes it more difficulty for seamless banking operations. The worst is that the problems may lead to the frustrations of customers; this is more noticeable in the use of ATMs in accessing cash and transferring funds. The banking networks are quite unreliable and epileptic and therefore obstruct banking transactions most of the time.

Another factor that leads to the disruption of smooth operation of the e-banking process is lack of constant power supply. This has increased the cost of maintaining the banking technology devises through the provision of the standby generators to empower them.

Electronics frauds: One of the hydra-headed problems that may threaten the introduction of cashless policy is e-frauds. Many banks and their customers have lost billions of Naira through e-frauds and this may put a hedgy for the timely implementation of cashless policy, if adequate laws are not put in place to track down the hackers. The above twin problems were summarized by Bamidle, A (2005) that the system can be threatened by system failures and cyber-crimes. The cyber-crime may heightened the fear of people to use the e-payment system and this may affect the efficient operation of payment system by preventing the deepening and widening of the payment system which is absolutely necessary for economic growth and development.

Legal System: Government of Nigeria is not proactive enough to promulgate necessary legal frameworks for the operation of e-banking in Nigeria. This seems to inhibit the smooth
operation of the cashless policy, as many cases of cyber-crimes have not yet been effectively persecuted. The above statement is supported by Yaqub, J.O. et. al. (2013) when they opined that Lack of suitable legal and regulatory framework for e-payment impede smooth development and improvement in e-payment and e-commerce.

Cultural resistance: Nigeria economy is cash based; it means that the Nigerians are used in transacting business in cash; in fact, cash transaction seems to create confidence in the parties concerned. It ensures that the business is genuine. The introduction of cashless policy is poised with culturally resistant and may constitute a cog in the wheel of effective implementation of the cashless policy.

However, Yaqub, J. O. et al (2013) noted that resistance to changes in technology among customers and staff is due to:

1. Lack of awareness on the benefits of new technologies
2. Fear of risks
3. Tendency to be content with the existing structures etc.

The above observation is aptly applied to the resistance in the application of e-banking by the customers.

V. RECOMMENDATIONS

Creating awareness: Government through the CBN must create awareness, highlighting the importance and the advantages of the cashless policy to the individuals and on the economy. The CBN should therefore, go a step further by intensifying the Financial Literacy scheme that has aided in no small measure in the deepening of financial inclusion which is essential factor in promoting cashless society.

The awareness creation should also be brought to the rural areas where the majority of the population is residing, through radio and television giggles as well. For the awareness to be effective and actually reach the grass root level, it must be carried on in three major languages Hausa, Igbo and Yoruba.

Reformation of legal system: The legal system of Nigeria has to be restructured to accommodate the electronic banking which is the bedrock of cashless society. In view of the cybercrimes and the criminal minded individuals that hack the e-banking system, the law will stipulate the proper operations of the electronic banking and put in place the necessary punishments for the offenders.

Financial inclusion: To encourage cashless society, CBN must vigorously pursue the financial inclusion policy in other to ensure that majority of the unbanked open bank accounts. This can be done through financial illiteracy with the view of educating the unbanked the importance of having bank accounts. According to Yaqub, J.O. et. al. 2013 the policy will also break the national barriers hindering financial inclusion for millions of Nigeria and bring low cost, secure and convenient financial services to urban, semi-urban and rural areas across the country.

VI. CONCLUSIONS

The quest for Nigeria to be the financial hub of African countries as envisaged in the FSS 2020, has made it absolutely necessary for the CBN to adopt as one its strategic policy thrust the successful formulation and implementation of the cashless society in Nigeria. The scheme will act as a catalyst for the development of effective and efficient operation of financial system and to deepen the payment system as well.

The advantages of adopting the cashless policy will surely be greater than the disadvantages. Emphatically stated, considering the status of Nigeria as developing country, successful adoption of cashless society will be strategic infollowing other developed economies who have successfully adopted the scheme. It will also streamline inclusive financial inclusion; financial literacy and etc. which are the bedrock for mobilization of funds in the economy by the financial institutions.

REFERENCES