

Cashless Policy: Prospects and Problems in Nigerian Environment

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Abstract: - The cashless policy was introduced with the objective of promoting the use of electronic payment channels such as Point of Sales (POS), Automated Teller Machine (ATM) in order to reduce the risk associated with carrying about physical cash and to enhance immediate transactions. Its introduction brought about mixed feelings among the stakeholders especially its operation in the environment where the irregular supply of electricity and dwindling internet connectivity is the order of the day. While acknowledging that its adoption in the developed economy creates ease and convenience to all participants, there has been a continuous deliberation on its operation in Nigeria where high percentage of people are not computer literate. This study examined cashless policy in its entirety in Nigeria in order to draw attention to its benefits and the challenges impeding its practice and to make recommendations necessary for effectiveness and general acceptability.

Keywords: Automated Teller Machine, Cashless Policy, Economy, Environment, Point of Sales.

I. INTRODUCTION

A cashless economy is one in which the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic fund transfer, electronic clearing, mobile payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer, multifunctional ATMs and a significant Point of Sales (POS) penetration and usage.

It also allocates investment funds among firms. One of the aims of the Central Bank of Nigeria (CBN) in embarking on the cashless policy is to reduce cash handling. An efficient payment system is a feature of economic development and a key enabler of economic growth. – (CBN , 2011).

One of the prerequisite for the development of national economy according to Ajayi and Ojo (2006) is to encourage a payment system that is secure, convenient, and affordable. In this regard, developed countries of the world, to a large extent, are moving away from paper payment instruments toward electronic ones, especially payment cards (Humphrey, D. B. 2004). In developed countries, for instance, it is possible to pay for a vending machine snack by simply dialling a number on one's phone bill. In recent times, the mobile phone is increasingly used to purchase digital contents (e.g. ringtones, music or games, tickets, parking fees and transport fees) just by flashing the mobile phone in front of the scanner at either 'manned' or unmanned point of sales (POS). In

Nigeria, as it is in many developing countries, cash is the main mode of payment and a large percentage of the populations are unbanked (Ajayi and Ojo (2006). This makes the country to be heavily cash-based economy. © *Centre for Promoting Ideas, USA www.ijhssnet.com* 201

Argument in favour of cash-based transactions abounds in the literature. A study conducted in UK in march 2010 (the future of cash in UK) argued that cash differs from other payment instruments in the following regards; it circulates, it is always valuable, it provides full and final settlement of a transaction, it allows for anonymity, once issued, the circulation of cash is uncontrolled, it is regarded as public good by its users. However, the cost of cash to Nigeria financial system is high and increasing. Other challenges resulting from high-cash usage among others include; robberies and cash-related crime, revenue leakage arising from too much of cash handling, inefficient treasury management due to nature of cash processing, high subsidy, high informal sector etc. Against these backdrops, the CBN introduced the cashless policy in April 2011 with the objective of promoting the use of electronic payment channels instead of cash.

The advantages of a cashless economy are enormous; cost of transportation and the danger of carrying large sum of money about will be highly reduced. According to the CBN (2011), this policy, when fully implemented will drive Nigerian's huge informal economy which is driven by small scale farmers, traders, craftsmen and other types of small and medium sized businesses and eventually integrate it into the nation's formal economy. <http://www.cbn.gov.ng/cashless>

The move to use electronic cash, commonly dubbed "cashless" however, has its own challenges, which in Nigeria, appear to be accentuated by the perennial problem of inadequate physical and social infrastructure. The introduction of the policy in Nigeria therefore brings up issues that touch on security, privacy, crime and computerization. Societal acceptance of the policy is therefore critical to its sustenance or the tendency to rebel against it by the common man on the street becomes imminent. However, as the financial institutions have implemented such things as debit cards, credit cards, internet banking, etc, (Emma, 2012) it has slowly brought society into the acceptance zone whereby another step could be taken. Without society being able to understand the pros and cons of electronic cash, the full benefit of the cashless society may never be realised.

Further forms include bio-metrics used in finger-printing and identification which should dispense with the use of passwords or Personal Identification Numbers (PINs) in the initiation of transaction by customers. The use of the internet and websites to bundle a host of services that go beyond traditional financial services which is increasing among banks, is also a product of information technology in banking.

Information technology is more than computers. It encompasses the data that a business creates and uses as well as a wide spectrum of increasing convergent and linked technologies that process such data. Information technology thus relates to the application of technical processes in the communication of data (Kosoko, 2011). It is beyond doubt that information technology can help reduce transaction costs for banks, which will translate to lower prices for services to customers. Information technology for banks takes different forms. The forms include:

- a) Computerization of customers accounts and account information storage and retrieval;
- b) Deposit and withdrawal through Automated Teller Machines (ATMs); and
- c) Networking to facilitate access to accounts from any branch of the bank.

It was therefore not surprising that the Central Bank of Nigeria (CBN) introduced the cashless policy in Nigeria in order to ensure that banking services get to everybody and offers all platforms for empowerment that will change the way people transact businesses and living generally in Nigeria.

II. LITERATURE REVIEW

2.1 Conceptual Framework

Recently in Nigeria, the Central Bank of Nigeria (CBN) introduced a policy requiring that all cash withdrawals and deposits be set at a daily limit of a maximum of one hundred and fifty thousand naira (N150,000) while pegging that of corporate entities at one million naira (N1,000,000) with penalty fees of one hundred naira (100) per extra one thousand (N1000) and two hundred naira (N200) per one thousand (N1000) on individual and corporate defaulters respectively (Reivent, 2011). This policy could be because of a lot of issues affecting the Nigerian financial system; from trying to check money laundry and illicit activity, inflation, cost of maintaining an economy predominately cash base. This policy, has led to what is termed “cashless economy”.

A cashless economy, according to Adewale (2012), simply illustrates a gradual or a radical movement of the entire payment system of an economy from the use of physical cash to a systemic adoption of other non- physical cash mode of payments in settlements of all types of transactions, including all commercial, homes, personal, local and international trade both in public and private life within the economy. Cashless economy simply implies that all means of payments are carried out without the use of physical cash.

Payments will range from online transactions, mobile banking, debit and credit cards, cheques, and wire transfer etc. In other words, financial transactions can be carried out anywhere via the internet with the use of computers and mobile devices. It is the latest electronic banking innovation and a revolution changing the lives of millions across the globe.

Hence, a cashless economy is a situation where there is little or very low cash flow in a given society, thus every other purchases and transactions will be made via electronic channels.

Akhalume (2012) pointed out that cashless economy does not refer to an outright absence of cash transactions in the economic setting but one in which the amount of cash-based transactions are kept to the barest minimum.

2.2 Benefits of the Cash-less Policy

Undoubtedly, an efficient payment system (that which depends less on cash) is a sinequa-non for national development and a significant national infrastructure for growth. All things being equal, it has been shown that 10% increase in the efficiency of the national payment system can cause the Gross Domestic Product to increase by 1% (Odior and Banuso, 2012). The assertion by Tunde (2012) sums up the following as benefit of cash less policy:

“Transaction charges are seen to make significant contribution to the profits of the banks. The cash-less Nigeria programme has even brightened the horizon for the banks to make even higher income from transaction fees. Isn’t this likely to result in “armchair banking” whereby banks will do little to mobilize deposits and build credit asset while also scaling back retail distribution outlet as has been reported? Are we likely to see some of the multiple fees consolidated to somepoint?”

On the other hand there are those who are optimistic about the policy. For instance, Obina(2012) believes that if the reported two-third of the total cash in the economy which are outside the banking system is brought in (as it will be in cash-less economy), the banks will have enough resources to do their businesses. Still expressing optimism, this study agrees with the submissions of Laoye (2011), Akhalumeh and Ohiokha (2012), and Okey (2012) that if the cashless policy is successfully implemented, the following benefits will be attained.

- A shift towards cash-less policy will reduce the high operational cost incurred in a cash based economy. Such costs emanate from cash management and movement, currency sorting and printing.
- Cash-less policy will help minimize the risks associated with the use of physical cash that do arise from burglaries and thefts as well as financial losses in fire outbreaks.
- Cash-less economy will make every segment of the banking population to pay for its usage of cash. The situation in the cash based system where the majority

small cash users pay for the minority high cash users will stop. There will be no more subsidies on cash transaction costs.

- It will reduce cost of printing notes, instances of their soiled or becoming unusable and counterfeit currency.
- It will speed and give satisfaction of operations for customers as no delays and queues, no interactions with bank staff required.
- Cash-less economy will arrest a situation where a lot of cash are outside the formal banking system. By encouraging formal financial arrangement, it will facilitate the effectiveness of monetary policy in checking inflation and pushing economic growth.
- Cash-less economy is capable of reducing corrupt practices like money laundering which is common in cash based economy. To the extent that cash is not easily pulled out of the system, it will discourage launders.
- Corporate organizations will benefit by way of faster access to capital, reduce revenue leakages and reduce cash handling cost.
- On the part of the government, it will bring about increased tax collection, greater financial inclusion, reduced revenue leakages and increase economic development.
- Other stakeholders: The cash-less system brings along with it different banking instruments such as POS systems, mobile payments, direct debits, internet banking, electronic fund transfer etc. Implicitly, companies that are connected with the production of these products will benefit.

2.3 Challenges of the Cash-less Economy

Notwithstanding the fact that the cash-less policy comes with enormous benefits, there are also some envisaged challenges that could confront the policy. These challenges identified by this study, and elsewhere by Okechukwu (2011), Ejiofor and Rasaki (2012) include:

- The policy is challenged by financial infrastructure deficit. The cash-less payment channels that are currently available are not adequate to cope with the demand of the policy if it is to be implemented religiously. This means that the policy will require further investment of funds by operators and regulators.
- Given that the system is driven largely by ICT, the policy is exposed to dangers of fraudulent practices as any security lapses can be exploited by the astute fraudster to perpetuate fraud. Internet related crimes like hacking is likely to threaten the cash-less policy in Nigeria.
- Electricity is a critical infrastructure for an efficient e-payment system. Sadly, Nigeria cannot boast of

steady power supply across its urban and rural areas. This will without doubt affect the success of cash-less policy if not addressed.

- The high charges and fees on some of the electronic channels are capable of generating resistance by the banking public. For example, the recent re-introduction of charges for ATM withdrawals did not go down well with the users.
- To operate successfully in cash-less economy, some level of literacy is required in view of the technology involved. Therefore, Nigeria with high rate of illiteracy will certainly have some challenges. Illiterate population would prefer to keep their money in cash.

III. METHODOLOGY

The study is built on archival evidences, documentary materials and supported by examination of major publications of Central Bank of Nigeria and other financial regulatory bodies.

IV. CONCLUSION AND RECOMMENDATIONS

Cashless banking and electronic money are rather sophisticated means of solving the problems associated with the use of cash but as a sophisticated tool, it requires great planning in its application and this is due to the archaic socio-economic, political and financial structures of developing countries like Nigeria.

Hence care must be taken to ensure that e-money does not compete with demand deposit which still form the basis for credit creation in most developing economies like Nigeria. E-money must to a significant extent replace time deposits. This achievement depends largely on the measures being put in place to ensure that most of the informal sector which constitutes a larger section of the economy holding time deposits – is made to patronize the use of e-money.

Presently, Nigeria occupies an unenviable position among countries in Africa with the largest number of people with no access to financial services. This study has been able to highlight the challenges of implementing electronic cashless policy in Nigeria. Despite the numerous benefits that this policy brings to the nation, banks and individuals, it also has its own challenges. The challenges as discussed in this study can be categorised as follows; Security, Infrastructure, Legal & Regulatory issues as well as Socio-Cultural issues. Payment systems in Nigeria during the past few years have undergone significant progress, but some transactions are still cash-based. Nevertheless, Nigeria has the basic infrastructure to implement the policy. There is therefore the need to create more awareness to entice the unbanked people into the banking system. Larger percentage of the Nigerian population is unbanked and going cashless will automatically get more people into the banking system. Most Nigerians are not aware of the benefits of electronic payments and are therefore slow to adopt it. The banks must also be educated to promote e-

payments; training programs for senior management of the banks and all other cadre. It is also further recommended that strategic segments of the economy be the subject of focus first especially the unbanked segment. In that way the vision of reducing the unbanked will be done gradually and systematically. The cashless policy, if well implemented, will help achieve the CBN's objective of expanding, deepening and modernising the payment system in Nigeria and also galvanise the CBN in ensuring that Nigeria ranks among the top 20 economies of the world in line with the nation's vision 2020 aspirations. The policy will also to break the traditional barriers hindering financial inclusion for millions of Nigerians and bring low-cost, secure and convenient financial services to urban, semi-urban and rural areas across the country especially through the mobile payment services. Nigerians, firms, banks and other stakeholders are therefore urged to support this initiative.

Though this policy may seem so good, there are still a few down sides to a cashless economy. Money by its nature is abstract. The less cash that flows through the people's hands, the more intangible it becomes and the more the sense of its real value is lost. Nevertheless, proper foundations have to be established as the CBN courageously transform the modes of operation of the Nigeria economy. Stakeholders should be carried along with proper consideration on how the policy may affect them. Otherwise, the policy may end up being another factor that leads to failure. In every human endeavour, attitudinal change often comes with some challenges, but that does not mean change is impossible, especially if it is for the good of all.

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