

Nigeria Cashless Culture: The Open Issues

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Abstract

A cashless society is one where the use of paper money or cash transaction is significantly reduced and most purchases made are by credit cards, recharge cards, cheques or direct transfer from one account to another through electronic banking. The cashless society envisioned in Nigeria refers to an extensive use of computer technology and expertise in the financial system. This paper shows that even though Nigeria has adopted this culture, the present state of implementation till date is still very poor and the phenomenon faces several challenges including the resistance of most Nigerian towards moving totally to a cashless economy as a result of traditional attachment to cash, the fear of security breach expected in a cashless society and the prevailing infrastructural deficit that has characterized the Nigerian society. The paper discusses these open issues and offers suggestions and strategies that could help improve and accelerate the optimal adoption of a cashless culture in Nigeria and by extension educate Nigerians on the opportunities that a cashless culture can offer stakeholders in the economy.

1. Introduction

A cashless economy is in its full operation when significant means of payments are done without engaging the physical cash particularly for transaction above certain limit. The means of payments options in this wise are the use of cheques, debit and credit cards, electronic transfers, online transactions, and mobile banking. The benefits the society stands to gain are vast ranging from controlling, regulating, and securing the financial system of the economy. The banking sector encourages growth and development in an economy by serving as the operation and transaction channel for resources to other sectors. It provides access to financial services and improves the efficiency of other intermediaries in a stable macroeconomic.

This paper analyses the open issues that Nigeria is presently facing, even though the cashless society is operational; its adoption has not been total. Suggested solutions to achieving the full deployment and acceptable cashless culture in the country were given with a proposed model. The paper is divided into seven sections. Section one reviews the role of banking sector in an economy, section two looks at a typical cashless economy, three examines the global movement to a cashless system. Section four presents the open issues towards the total adoption of the cashless culture in Nigeria and the responses of Nigerians, section five presents plausible suggestions and strategies to the full deployment of the culture, section six gave the benefits Nigeria stands to gain in fully adopting this culture with a proposed model and finally section seven concludes the paper.

2. The Role of Banking Sector in the Economy

The financial sector plays a crucial role in the growth and development of any economy as it performs the vital role of financial intermediation. Banks and other financial institutions mobilize saving from the surplus unit and channel them for investment purposes in the productive sector of the economy. Beside the mobilization of savings for investment, the banking sector helps in the implementation of monetary policy. In its efforts to ensure price, monetary and exchange rate stability, the central bank formulate and implement policies such as changing the interest rates and other statutory reserves that will directly or indirectly impact on the balance sheets of deposit money banks (DBM). This, in turn affects the intermediate targets of monetary policy signals, from the monetary authorities to the economy, intending to ensure efficient credit allocation and effective interest and exchange rate structures.

Another role of the financial sector is providing efficient, safe and reliable payments system. The payment system serves as a conduit through which financial transaction are conducted. As the repository of the country's liquidity, the financial system, especially bank, constitute the backbone of the payments system [1]. Presently, the accessibility of the internet and information and communication technology advancement made banking transaction from a remote location possible without visiting the financial institution. This is a great development in the electronic banking [2]. The way Gates [3] announced that "banking is essential, banks are not". His statement simply means that as electronic banking continues to attract more users, the conventional bank will soon fade away.

Online transaction system is now a global phenomenon. It is an invaluable and powerful tool driving development, supporting growth, promoting innovation and enhancing competitiveness. Technological innovations have been identified to contribute to the distribution channels of banks and these electronic delivery channels are collectively referred to as electronic banking [4]. The evolution of banking technology has been driven by changes in distribution channels as evidenced by automated teller machine (ATM), Phone-banking, Tele-banking, PC-banking and most recently Internet banking [5][6], are the technology depended on to achieve cashless society. The figure 1 below shows the estimated percentage of payment transaction done using non-cashless methods (master card). It is obvious that virtually all the third world nations are still at the inception while countries like Nigeria, Indonesia have not yet picked.

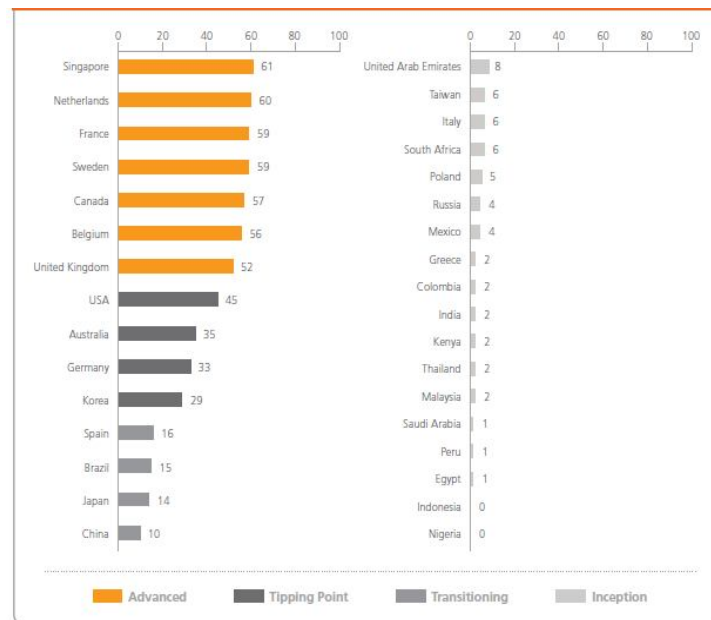


Figure 1. Estimated Percentage of Payment Transaction done using non-cashless methods. Source: [Ref. 7]

Most countries particularly in the first and second world countries have moved significantly into non-cash transaction particularly online banking. Apart from the developed countries, the developing countries, like Republic of Korea is experiencing strong growth in e-banking. In Southeast Asia, Thailand, Malaysia, Singapore and Philippines, Internet banking is also developing rapidly [8]. In Nigeria, ATMs are the most popular electronic delivery channel for banking services but only a few customers are using Internet banking facilities. Banking industry that is robust is essential in any nation to strengthen development through efficient financial services [9].

3. Cashless Economy

Cashless economy is a global issue apart from the fact that Nigeria just launched itself into the system. The prevalent question often asked is what is cashless society all about? Will there be cash elimination in the economy? The simple answer to this question is no. Simply put, a society that minimizes the use of cash through alternative channels of payment operates a cashless society. Money is what money can do and not necessarily physical cash.

According to Adewale [10], "A cashless society rightly illustrates a gradual movement of the entire payment system of an economy from the use of physical cash for all levels of personal, corporate, governmental including local and international commercial settlement activities to a systemic adoption of other non-physical cash mode payment in settlements of all types of transaction both in the public and private sectors of an economy. The discussion in respect of the history of cashless society Nigeria project as enunciated by the CBN in 2010 were outlined and elaborated yet buttressing on the basic provision of the central bank's policy in respect of the project.

According to Financial analysts and other critics across the world, the cost of producing and managing cash money in most countries have reached the pick and sometimes gone beyond 0.5% of the entire Gross Domestic Product (GDP). They have also argued that money itself has no value as it is just a printed paper by the authority of government empowering the Central Bank, what is of value, is the confidence placed in money which gives it the ability to command acceptability in settlement of transactions. However, as much as there is the need to change into a society where cash will no longer be dominant in the payment system, proponents of cash money have on the other hand claim that in the developing and the underdeveloped nations physical cash money is still the most convenient means of settlement of transactions as a result of illiteracy, and Nigeria is very guilty in this regard".

In a Nation with over 150 Million inhabitants, the proponents of a cashless society in Nigeria argued that it will aid in the drastic reduction in money laundering, terrorist financing and other economic and financial crimes. Others believe that a cashless society will encourage financial inclusion for most Nigerians since less than 30 per cent of bankable Nigerian adults own bank accounts. A larger percentage of the population rather keeps their money under their mattresses, in their pockets and probably in old cooking pots [11][12][13].

Scholars also opined that a cashless Nigeria will promote and implement realistic monetary and fiscal policies that will reduce inflation and encourage investments [11][14]. Ladeinde [15] mentioned that the strike action in January of 2012 against the removal of fuel subsidy in Nigeria was a litmus test for how effective the cashless society will run. He mentioned that during the strike, Nigerians were left with no means to carry out financial transactions other than the use of ATM machines and electronic payments. The Central Bank of Nigeria (CBN) recently pegged daily cash withdrawals and lodgments by individual to N150,000 and corporate bodies N1m respectively with effect from the 1st of June 2012 [15].

Also according to [16] the circulation of money works all the way round the economy from the ten percent of bank accounts which tops all savings with about 75 percent of total cash value having direct and indirect impact to over 75 percent of Nigerians without a bank account. This will eventually propel more employers to demand their employees to maintain a bank account in order to minimise the cost of operating in Nigeria, so that casual labourers or student, drivers, security-men, teachers, traders and so on will not be paid in cash, but would be required to own and operate a bank account. As a result of this, the banking infrastructure will be under intense pressure as they may not be able to handle the inflow of large new accounts. The advent of mobile banking platform will only reduce the physical contact as the issues of opening and signing of accounts cannot be done online. This will result in having more locations to meet the needs of prospective clients.

There will be explosion in stockpiling in the black market if selling at 10 to 20 percent below what it cost in banks. This will result in wide assumptions that may influence production, supply, demand, availability, prices and the stock market may not be spared. Judging from the historical perspective of policy implementation in Nigeria, administration of this policy may not be effective or may eventually fade out and could be described as an addition by subtraction" [16].

4. The Transition to a Cashless Transaction System in Developed Nations

The concept of cashless society has been fully implemented in many countries especially in the developed countries (such as USA, UK and so on) where citizens are inclined to the use of technology. One of the main quests for migrating to a cashless society is the move towards globalization and reduced cost of cash management. The ability to purchase goods across borders is fostered with the ease of instant payment not necessarily with physical cash but electronic cash, for example purchases made online at Amazon and e-bay, further driving the world into a global village. Besides the ease of purchasing goods and paying for services that can be done within and outside one's geographical location is another major drive towards the cashless society. According to [17], it was noted that in 2009, the total cost spent on cash-in-transit was N27.3 billion, while cash processing stood at N69 billion.

While the benefit of moving a society to a cashless era is no doubt enormous, the shift is not as smooth as it seems. Countries like Singapore took seven years to embark on this journey and the silent revolution of the payment system in the US occur over decades. [17]. Figure 2 is a chart showing the readiness score of macro-economic pre-requisite for going cashless. Again we have seen from this chart that the readiness of most African countries such as Nigeria is still poor.



Figure 2. Readiness scores indicating the presence of Micro-Economic Pre-requisites for going cashless. Source: [Ref. 7]

5. Open Issues of the Present Cashless Culture in Nigeria

There is no doubt that Nigeria has made its transit to the cashless culture like most nations of the world, the fact remains that the transition has not been impacting on the economy at large. Aside from the ATM that is so widely used, other cashless means has not been well patronised. The major problems at hand includes illiteracy, fear of security breach, resistance to change deficiencies in power and infrastructural facilities and the challenges of huge capital outlay needed for technological development.

5.1 Deficient Cashless Means

Presently, Nigerians have only recorded success in the widespread use of ATM cards and this is even in major cities. It is sad to note that even so many big supermarkets do not have POS machines to make purchase without cash. Participation on online shopping is less than one per cent of the nation. Although technical infrastructure to support a cashless society is still very poor, resources such as electric power supply and internet connectivity is still very much a challenge. There are still fears that ATMs and PoSs are yet to attain the desired efficiency to drive a cashless economy, maintaining a working network and constant connectivity [18]. This development is indeed worrisome, considering the centrality of these electronic banking platforms to the cashless economy drive of the CBN and business owners.

5.2 Insufficient Infrastructure

There are different complaints from several quarters of insufficient facilities to drive the smooth running of the system. The e-payment system in the Nigeria context is associated with so many hitches such as being charged for service not successfully rendered, the fear of possible loss of money through fraud and so on. The internet connectivity in Nigeria is still an issue, so also is electric power supply. Even though Nigeria wants to move from their present level of development, this aspect has always dragged the nation behind and the story has remained the same for so many decades. Power infrastructure has a great role to play in the stabilizing and improving the cashless culture on ground and a nation without stable electricity cannot run a successful e-payment system. Aside from this is the challenge of telecom and banking Infrastructure, which are not presently sufficient to support all the applications for cashless society.

5.3 Fear of Security Breach

Security is another issue. Experts in Information security confirmed that the infrastructure supporting the cashless culture in Nigeria is about 60% vulnerable to fraud. This, according to them, is due to the fact that the system is only 40% protected since just 1% of the operators concerned have achieved the Payment Card Industry Data Security Standard Certification (PCI DSS). It is therefore imperative for operators to obtain the PCI DSS certification since it is only then the public can be assured that transactions through their networks are safe [19]. Again,

the question on our minds here is, with cashless economy, can financial institutions give a reasonable assurance of the security of customer data? What about scam and identity thefts experienced by developed nations where these systems are fully operational? Experts in IT security warned that even though the cashless policy is set to increase online transactions and deployment of different payment platforms the security of this e-payment platforms is not yet given priority attention by stakeholders. IT Experts further observed that Nigeria has not put in place cyber security emergency response program, meaning that if the country is attacked on cyber space today, there is no way of knowing. [20].

5.4 Resistance to Change

Resistance towards moving to a cashless society is another major challenge. People are traditionally attached to carrying cash. A large percentage of our business men and woman preferred to be paid physical cash than using any other means of money transfer to them. They get certain satisfaction in handling cash from their sales than otherwise.

5.5 Level of Illiteracy

Another issue is the level of illiteracy in the nation. The level of education in the country is another impediment. It is believed that majority of Nigerians are illiterate and are therefore finding it difficult to adapt to the system.

6. Suggestions and Strategies to Improve the Cashless Culture in Nigeria

Following the CBN launch of Nigerians to a cashless economy and with the challenges presently encountered, this paper offers suggestions and strategies that could help improve and accelerate the existing cashless culture in Nigeria.

6.1 Awareness/Education of non-literate

The regulatory body should adopt diverse strategy to educate non-literate Nigerians about the cashless economy. The people cannot adopt a system that is unfamiliar to them. For cashless system to be widely accepted and used the people must be educated, they need to know the essence of the system and the benefits accrued to it. Once they are convinced that the benefits outweigh any inconvenience and change they need to go through, acceptance is guaranteed. The awareness should also include associated legal, ethical and economic issues associated with cashless system. CBN should embark on intensive awareness campaign to educate Nigerians about this system. The campaign should involve the religious leaders since the lack of banking culture in the North has been their Islamic belief and often discuss in Nigeria is usually divided between ethnic and religious.

6.2 Computer Literacy

The literacy rate of the nation is still very poor, most especially computer literacy. The Northern part of the country is a major issue in this regard. Many business men will rather keep their money in their own treasury rather than make use of financial institutions, talk less of mobile banking. Also computer usage, skills and knowledge of Nigerians even among the educated is poor. The platform to be adopted should be simple enough even for non-literate to be able to accept a cashless transaction as experienced in GSM deployment. Our government should make education free at all levels and encourage the use of computers right from the primary school levels by making available laboratories where computers are massively stationed.

6.3 Provision of Technological Infrastructure

The catalyst for achieving this economic milestone would be through the provision of adequate technological infrastructure to serve as the pillar and foundation of the cashless system in Nigeria. CBN must therefore improve and invest more in technology, to make the adoption of cashless economy total.

6.4 Government Intervention in Electric Power Supply/Alternative Power Supply

As steady stream of literature suggests that the current inadequate technological platform that characterizes Nigeria's socio-economic environment is the abysmal power distribution which remains a great disincentive to foreign investment to any developing nation. Therefore, the issue must be revisited and resolved and the government has a major role to play in achieving the goal. In the absence of electric power supply, alternative power supply (solar, inverters and so on) should be provided.

6.5 Provision of Internet Facilities

Notwithstanding the successes recorded in the proliferation of telecommunications (with mobile operators contributing to the high rate of teledensity) in Nigeria, the issue of bandwidth is still a nightmare. Where internet facilities are available, they are very costly and too slow to do meaningful work. Government should provide a framework and support that will make available affordable broadband through mobile telecommunication operators since they are present in almost all communities in the country.

6.6 Availability of Real Data

It is crucial that proper and accurate identification of account holders must be preserved and shared as needs arise from all financial institutions. The CBN must cooperate with other government and private organizations responsible for collection of individual's identifications for reconciliation of any identification. For POS terminals to work well, infrastructure in terms of high bandwidth internet and the Grand Packet Radio Service (GPRS) an essential service provided by the GSM telecom operators must be strong.

6.7 Security of the System

Though the financial institutions are excited about the cashless economy, there are risks inherent in the system. Awareness of the associated risk of a cashless economy should be made known to financial institutions, proactive process that can be implemented to address these risks should be known by them. Although many financial institutions have some form of supporting policies in place, some of those policies were generally established before the eruption of mobile devices as well as the move to a cashless economy. Efforts should be made to make the policies current. More sophisticated security measures are required to handle the new set of technical and organizational capabilities to govern security development, deployment, and management as well as the supporting policies to control costs and manage conformity.

Financial institutions are not the only one responsible for electronic security, other sources of security breach include third party-processor of payment data, retailers, even POS machines which are usually based on standard PC architecture share much vulnerability like weak or default configurations, missing security patches and weak password and account policies. The print and electronic media can therefore help propagate the cyber security measures required to ensure a seamless operation of the cashless economy in Nigeria.

7. Benefits and Proposed Solution of Cashless Culture in Nigeria

The benefits Nigeria stands to gain in full implementation of cashless economy as well as model proposed is given in the next sub sections

7.1 Benefits of Cashless Culture in Nigeria

Although there are many challenges associated with the cashless culture in Nigeria, the benefits of such system should not be forgotten. A cashless society is a good alternative and stands to benefit Nigerian at the crucial point in time where several frauds, money laundry and robbery are at the peak of the economy.

There are several advantages the society will derive from cashless culture ranging from controlling, regulating, and securing the financial system of any economy. Electronic means of purchase and transactions are employed which includes direct debit, electronic funds transfer, mobile payments, multi-functional ATMs, internet banking, POS and point of sale (POS) usage.

Benefits of e-payment system include convenience of transaction as there is no need to have to be physically present in financial institution to carry out the transaction desired. For example people can actually pay all their bills from the comfort of their rooms by their mobile phones or by just walking down the street to use a POS terminal. Apart from this there is reduction in transfer and processing fees as well as increase in processing and transaction time, multiple payment option and instant notification of all transaction on individual's account. Armed robbery and other cash related crimes are drastically reduced to the barest minimum.

e-payment also reduces the risk of carrying enormous amount of cash around whereas businesses spend less in cash management because banks spend a lot of money in cash processing, and a number of human resources are dedicated to counting cash every day. e-Payment system eliminates all these. In addition, the government also stands to gain from cashless economy in term of improved administrative processes, improved regulatory services, adequate budgeting and taxation, and reduced cost of currency administration and management. From the CBN perspective, a cashless economy is projected to enrich and enhance efficiency of monetary policy measures put in place to curtail inflation and stabilise the economy, translating to economic growth and development that create jobs and improve economic wellbeing of the nation.

7.2 Proposed Solution

Figure 2 is a model showing the proposed solution to improving the present cashless system in Nigeria. The first block is a representation of open issues facing the present cashless culture; issues such as deficient cashless means, insufficient infrastructure, and fear of security breach, resistance to change and level of illiteracy. The second block contains plausible solutions to the issues on ground. These solutions include creating awareness/education of non-literate, computer literacy, provision of technological infrastructure, government intervention in electric power supply/alternative power supply, accessibility of internet facility, availability of real data and security of system. The third block represents operational cashless culture that is efficient and robust in the context of resolved open issues. The arrow going from block 2 to block 3 indicates a successful transition when open issues are resolved.

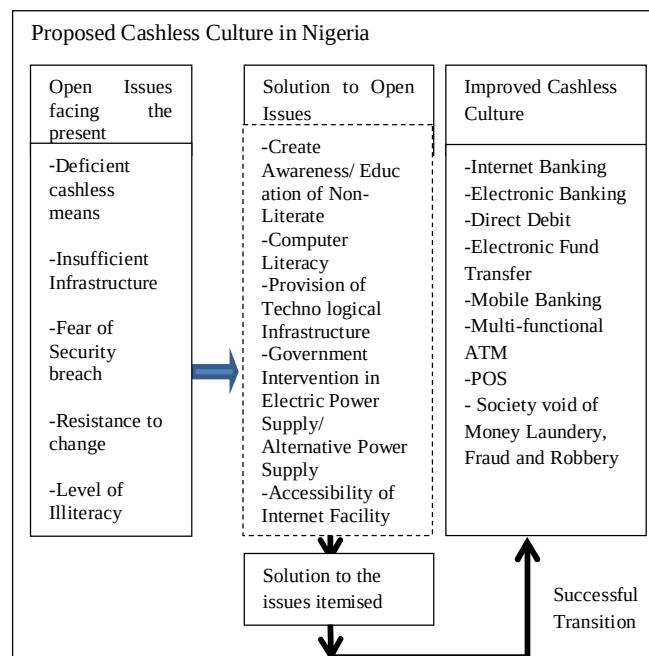


Figure 3. Proposed Cashless Solution in Nigeria

8. Conclusion

Cash is expensive to print, secure and distribute, it reduces the transparency of an economy and it can negatively impact the government's ability to deliver services to its citizens. The cashless policy drive provides sufficient prospect for banks to advance operation and performance of their service delivery infrastructure. We believe that with improvement in the cashless economy operational in Nigeria, by visiting the open issues and solving them once and for all, the economy could be amongst the first 20 world economies come 2020.

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