

## CASHLESS POLICY AND ITS EFFECTS ON THE NIGERIAN ECONOMY

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### ABSTRACT

The paper discussed the effects of cashless policy on the Nigerian economy, how it was kick-started in Lagos, means of payments (both manual and electronic), positive and negative effects of cashless policy, benefits to the economy and stakeholders, suggestions were made to the Nigerian government on how to curb some of the negative effects and to improve on the implementation of the policy.

**Keywords:** Information Technology, Computer, Automated Teller Machine.

### INTRODUCTION

A cashless economy is an environment in which money is spent without being physically carried from one place to another. Electronic devices as means of information that reveal how much a person has deposited and has spent are needed. Information technology plays an important role in bringing about sustainable development in every nation. Without an optimal use of information technology, no country can attain a speedy social- economic growth and development. The future of all business particularly those in the services industry lies in information technology, in fact, information technology has been changing the ways companies and banks compete. Information technology is more than computers, it encompasses the data 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. It is no doubt that information technology can help to reduce transaction costs for banks, which will translate to lower prices for services to customers. Information technology for banks takes different forms which include: computerization of customers' accounts and information storage and retrieval, deposit and withdrawal through Automated Teller Machine and networking to facilitate access to accounts from any branch of the bank. Other forms include bio-metrics used in finger- printing and identification which should dispense the use of passwords or personal identification by customers. The use of internet and websites to bundle a host of services that go beyond transactional financial services which is increasing among banks.

The financial sector has undergone many organizational changes over time in order to facilitate easy production and trade of products and services. However, with accelerating development of the financial systems as a result of deregulation, globalization and new information system, new ways of handling money appeared among banks and their customers. The use of e-card, internet banking facilitates the ease and convenience in handling transactions. E- banking customers have possibility to access online or electronic banking for 24 hours which allows them to view historical banking transactions, transfer money between accounts, make savings, perform other operations at everywhere. Moreover increase in knowledge and ability to manage internet banking, banks and ATMs have resulted in more independent bank customers no longer requiring bank staff. The shift in bank customers' behavior and attitude towards cash services offered at the banks gave birth to

cashless policy. This means banking is entirely relying on monetary transactions that use electronic means rather than cash. The cashless policy was conceptualized by the apex bank to migrate Nigeria's economy from cash based economy to a cashless one through electronic payment system, not only to enable Nigeria monetary system be in line with international best practices or discourage movement of cash manually, but at the same time increase the proficiency of Nigeria's payment system which will in turn improve the quality of service being offered to the banking public. Cashless policy aims to curb some of the negative consequences associated with the high usage of physical cash in the economy, including high cost of cash, high risk of using cash, high subsidy, informal economy, inefficiency and corruption (CBN,2011).The introduction of the policy in Nigeria therefore brings up issues that touch on security, privacy, crime and computerization. According to David (2012), Nigeria did not embrace electronic banking when compared to developed countries. Nigeria adopted electronic banking system in early 2000s.

Electronic banking is defined as the use of computer to carry out banking transactions such as withdrawals through cash dispensers or transfer of funds at point of sale. Cashless policy started in Lagos, pilot state. The apex bank pegged withdrawal by individual and corporate accounts at N500,000 and N3million respectively. Processing (charges) fees for withdrawals above the limits for individual customers is 3% while that of corporate bodies is 5%. Charges for lodgements for individuals and corporate accounts are 2% and 3% respectively. However, ministries, departments, agencies, specialized banks, diplomatic missions, embassies, multilateral and donor agencies have been exempted from charges emanating from this policy.

The cashless policy will potentially result in an extensive application of computer technology in the financial system which places the computer Professional Registration Council at the centre of control and regulation of the emerging in the Nigerian economy. The Central Bank of Nigeria has in recent times engaged in series of reformations aimed at both making the Nigerian financial system formidable and enhancing the overall economic performance of Nigeria so as to place it on the right path in tune with global trends. Recently, the CBN came out with two laudable agenda- the Islamic banking (non-interest banking) and the cashless economy(e-payment system)(Babalola,2008). Some of these policy measures came with tremendous success despite the initial scepticisms of Nigerians. For instance, when the CBN in July 2004 set December 31<sup>st</sup>,2005 deadline for N25billion minimum capitalization, it was agreed with considerable criticism when the programme was completed, the banking landscape was transformed out of a system dominated mainly by "fringe banks to one made up of largely "mega banks" (Adeyemi,2006). The product of the exercise was to ensure a diversified, strong and reliable banking industry where there is safety of depositors' fund, and reposition of the banks to play active developmental roles in the Nigerian economy" (Adegbaaju and Olokoyo, 2008). This remark sums up the assessment of analysis about the outcome of the reform agenda. In recent years, Nigeria has been experiencing growth and the condition seems right for launching onto a path of sustained and rapid growth, justifying its ranking amongst the 11 countries as identified by Goldman Sachs to have the potential for attaining global competitiveness based on their economic and demographic settings and the foundation for reforms already laid. Constraints to the achievement of Nigeria's ambition to be among the top 20 economies of the world by year 2020 is the fact that the Nigerian economy is too heavily cash oriented in transaction of goods and services which is not in line with global trends. In its efforts to rescue the Nigerian economy from the brinks of total collapse; the CBN in collaboration with the Bankers' Committee, the cashless policy was designed to provide mobile payment services, breakdown the traditional barriers hindering

the financial inclusion of millions of Nigerians and bring low-cost, secure and convenient financial services to urban, semi-urban and rural areas across the economy. The cashless policy initiated by the CBN led by its former Governor, Sanusi Lamido was introduced first in Lagos state, with the aim of achieving an environment where a higher and increasing proportion of transactions are carried out through cheque and electronic payments in line with the global trend (Obodo,2012).

So much have been said about the anticipated gains that had resulted from the adoption of e-payment and cashless economy but in concrete terms, people have been convinced that the agenda is for the good of all but the fear being expressed is the state of Nigerian infrastructural decay, lack of security on financial information, cost of ownership and adoption due to high cost of acquiring and maintaining internet data, computers and so on. The internet is perhaps one of the most useful tools to businesses and individuals in contemporary world economies. Its use has touched virtually every aspect of human endeavour especially banking. Technological breakthroughs and product designs have led to the emergence of e-banking services which in recent time has become globally popular except in developing countries including Nigeria (James,2012).The Central Bank of Nigeria in 2011 released a circular on the introduction of “cashless policy” which sets cash deposit and withdrawal limits, that the country would from June 1st 2012 join the committee of nations that embrace the electronic means of payment and limit the use of cash to the very barest. The apex bank has also gone ahead to assert that the commencement of its “cashless policy” for cities such as Lagos, Abuja and Port Harcourt to demonstrate the CBN’s seriousness about the policy which has generated huge debate from Nigerians. While the apex bank is of the view that the cashless policy is the way to go in line with global trends, many Nigerians both informed and uninformed have divergent views about the policy (CBN,2011).The cashless policy of the CBN is designated to provide mobile payment services, breakdown the traditional barriers hindering financial inclusion of millions of Nigerians and bring low cost, secure convenient financial services to urban, semi-urban and rural areas across the country. The CBN has gone ahead to license six Payments Terminal Service Providers to support and maintain Point of Sale(P.O.S) terminals. This step is a bold demonstration that apex bank is determined to see the policy work which has been kick started in Lagos early 2012 (Olajide,2012)

## **LITERATURE REVIEW**

One of the prerequisites 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 the payment instruments toward electronic ones, especially payment cards (Humphrey, 2004). In recent times, the mobile phones is increasingly used to purchase digital contents (ringtones, music or games, tickets, parking fees and transport fees etc) just by subscription on mobile phones or using Point of Sales. In Nigeria, as it is in many developing countries, cash is the main mode of payment and a large percentage of the population is unbanked (Ajayi and Ojo, 2006) which makes the economy to be heavily cash-based. However, the cost of cash to the Nigerian financial system is high and increasing; the cost was very close to fifty million naira in 2008 (CBN,2012).Cashless economy does not mean a total elimination of cash as money will continue to be a means of exchange for goods and services in the foreseeable future. It is a financial environment that minimizes the use of physical cash by providing alternative channels for making payments. The cashless policy of the Central Bank of Nigeria is designed to provide mobile payment services, breakdown the traditional barriers

hindering financial inclusion of millions of Nigerians and bring low cost, secure convenient financial services to urban, semi-urban and rural services across the country. There are up to seven different electronic payment channels in Nigeria: Automated Teller Machine (ATM), Point of Sales terminals, mobile voice, web, inter-bank, intra –bank and kiosks. E-payment initiatives in Nigeria have been undertaken by indigenous firms and have been stimulated by improvement in technology and infrastructure (Babalola,2008). Other alternative means of payments include the following:

1. **CHEQUES:** there is an expected surge in the use of cheque. However, encashment of third party cheque across the counter is prohibited and all cheque drawn in favour of any beneficiary other than the account owner be presented through CBN clearing house. The value on cheque must not exceed N10million.
2. **Bank Drafts and Other Bank Instruments:** bank drafts will become the toast of many merchants for big transactions not more than N10million. This is because bank draft unlike personal cheque cannot be paid across the counter and will still be subject to three days clearing rule of CBN for cheque.
3. **ATM:** Automated Teller Machines will be used much frequently for making variety of online payments such as utility bills, T.V subscriptions, GSM recharges etc. Customers are advised to keep their ATM cards (Debit and Credit) safe and never to divulge their PINs.
4. **NIBSS Fund Transfers:** The Nigerian Interbank Settlement Scheme is an online platform where banks exchange value thereby enabling the performance of interbank transfer such as NEFT and NIBSS instant transferring funds between banks for single or multiple beneficiaries for individual amounts not exceeding N10million. NEFT transfers ( National Electronic Funds Transfer), once affected works with the next available clearing session of CBN and is received in the beneficiary's account the same day or next working day, but NIBSS instant payments are immediate.
5. **RTGS:** Real Time Gross Settlements is used to transfer sums above N10million in favour of a single beneficiary. It is used for big ticket transactions which must have been effected before noon for most banks if the funds are to reach the recipient bank the same day.
6. **Mobile Money:** This is a product that enables users to conduct fund transfer, make payment or receive balance enquiries on their mobile phones.
7. **E- transfers:** It refers to electronic transfers which can be affected via the internet on (Personal Computers) PCs, laptops and other devices. Bank customers who have subscribed to internet banking can do basic banking transactions via the web.
8. **POS Terminal :** Point of Sale terminals are deployed to merchant locations where users slot their electronic cards through POS in order to make payments for purchases or services instead of using raw cash. As the POS terminals are online real-time, the customer's bank account is debited immediately for value of purchases made or services enjoyed. There are indeed alternatives to handling or transacting cash for transfers and for payments of goods and services purchased. These include: ATMs, mobile banking/ payments which can be done through the use of mobile phones for balance enquiry, fund transfer, bills payment, internet banking which can be used for instant balance enquiries, fund transfer, bills payment and other transactions. Most banks require you to have a token device for internet banking services in order to give some security for customers banking application. Yet, other alternative includes Point of Sale(POS) terminals which allow merchants access to card payments for sale of products and services e.g recharge cards, bill payments, lottery tickets etc and finally there is electronic fund transfer through which one can transfer money electronically from his account to other account. Some banks also offer an instant electronic fund transfer service. However, most of these e-payment channels require you to have an ATM/ Debit card (Oyetade and Ofoelue,2012).

## POSITIVE EFFECTS OF CASHLESS POLICY

- i. Prompt settlement of transactions: E- banking speeds up settlement of transactions both locally and internationally, where the bank stands as paying bank to the customers for settlement of transaction or as collecting bank for collection of payment on transactions;
- ii. Reduction in the frequency of visits to banks: unlike before customers can now transact their banking businesses in branches nearer to them and they can also withdraw money from any ATM including the ones located outside the bank where they have account. They can also transact banking business at home with the aid of telephone
- iii. Stimulation of cashless policy: e- banking paves way for cashless society as the introduction of electronic machine has reduced the use of raw cash thereby transiting the country into a cashless society .
- iv. Reduction of theft: since robbers are attracted by volume of cash movement through bullion vans, the use of alternative electronic payment system will no doubt reduce incidence of robbery in the society, this is one of the reasons why CBN continues to emphasize that people should buy into the policy as soon as possible.
- v. Clearance of goods: payment system in the custom services help in ensuring easy facilitation of clearance of goods by importer, this is apart from the fact that money due to government would be paid electronically to the right account, thereby reducing the incidence of fraudulent practices of diverting government funds to individual pockets.
- vi. With cashless policy , CBN will reduce cash management costs by as much as N192 billion annually. CBN is of the opinion that the cash handling accounts for at least one third of infrastructural and labour costs in the sector , hence cashless policy will impact negatively on employment of those handling cash in the bank. The policy will also reduce cash related vices like robbery, cost of processing cash, revenue leakages from cash handling and inefficient treasury management through cash processing.

## NEGATIVE EFFECTS OF CASHLESS POLICY

The following are the constraints that affect effectiveness of e- banking in Nigeria presently:

- i. Erratic power supply and communication link: power failure negatively affects e- banking infrastructures like ATM, network failure of communication link due to much congestion, change in weather also affect the policy
- ii. Non- existence of computer back-up: there is bound to be total loss of data on customers' accounts if there is no back up and the entire file is damaged. This may lead to misappropriation of customers' account, hence bank should maintain back up of all its information outside the bank's premises.
- iii. Inadequacy of fund to invest in information technology: most banks find it difficult to fund procurement of modern equipments needed for e-banking. Nevertheless, there has been tremendous improvement in automation of bank operation in the country in the last 5years but there are still rooms for further expansion so as to catch up with hi-tech , which is in vogue in developed countries;
- iv. Replacement of workforce by machine: electronic banking has now somehow reduced the number of employees needed to handle most transactions in the bank as most work done by workers are now being handled by machines thereby translating to increase in the rate of unemployment in the country;
- v. High bank charges for the use of e- banking machines : commission charged by bank on ATM transactions, as an example , is too high , thereby discouraging customer from using it;Central Bank of Nigeria is working out a modality to stop forthwith charges for usage of

ATM. This will be a sort of relief and stimulates the effectiveness of the policy in Nigeria, if fully implemented.

vi. Low acceptance by the public: many people have burnt their fingers as a result of fraudulent withdrawals from their accounts through the use of ATM by unscrupulous individuals who believe in using master cards to withdraw money from unsuspecting individuals. Not to mention situations whereby customers are debited by the ATM with withdrawals not supported by cash that fail to drop down from the machine as expected. Customers are discouraged to use the machine as it takes longer time before the wrong debit is reversed if it does not end up unsolved.

vii. Inadequate securities around the ATM location: most ATM locations are not secured thereby making it easier for fraudulent persons to carry out their fraudulent activities without any arrest. Computer hackers also use the porous security system to steal data by breaking the codes or passwords.

viii. Encouragement of excessive withdrawals: customers can use their cards to effect withdrawals as many times as possible, even on weekend and during public holidays. They can even make impulse withdrawals while attending a ceremony with the use of their credit cards.

## **BENEFITS OF CASHLESS POLICY**

1. Faster transactions- through reduction in queue at the banking halls. It has been proven from time to time that queue at point of sale terminals has been reduced which leaves much time for employees to enjoy their break, there has been an improvement in the speed of rendering banking services

2. Improving Hygiene: it has eliminated bacterial spread through handling of notes and coins from one individual to another.

3. Increased Sales: it has been demonstrated that with the introduction of a cashless policy, there has been increase in sales by 20%. Vending and catering purchases are often dictated by the amount of loose balance we have in pockets. With the introduction of cashless policy, this is never a problem; the value on the card is available 24hours and 7days a week

4. Cash collection made simple: time spent on collecting, counting and sorting cash is eliminated. The cashless system offers a choice of top-up options including payroll reduction, credit and debit cards. Removing all the cash from your site removes the security issues relating to cash handling significantly and reduces the risk of vandalism and theft from your vending and catering points of sale. A payroll loader, where money is transferred from your salary to your smart card, or a credit card, where money can be loaded from Access, Visa or Master card directly to your smartcard offers you and your customers a truly cashless system.

5. Managing staff entitlements: free vends, corporate cash, royalty and hospitality are all entitlements which can be programmed in to the card, this can be refreshed daily, weekly or monthly while the card can be configured so that any unused allowance is accumulated depending on the client's request. In some instances, it may be necessary to charge different tariffs for visitors and staff.

6. Reduction in cash circulation: a cashless system prevents too much of cash in circulation thereby curbing armed robbery and cash related crime.

### **Benefits to the Stakeholders**

Having considered the benefits of the cashless policy generally, the advantages of the policy to stakeholders cannot be overemphasized. A variety of benefits are expected to be derived by various stakeholders from an increased utilization of e-payment which includes:

- i. For consumers; increased convenience, more service options, reduced risk of cash- related crimes, cheaper access to (out of branch) banking services and access to credit
- ii. For Corporations; faster access to capital, reduced revenue leakage, and reduced cash handling costs
- iii. For Banks; efficiency through electric payment processing, reduced cost of operations and increased banking penetration (Oyetade and Ofoelue, 2012)
- iv. Benefits to the economy; through the system, users can also pay utility bills, school fees, hotel booking, house rents, among other transactions, using a mobile phone device
- v. For Government; increased tax collection, greater financial inclusion, increased economic development. The government will also benefit from the cashless policy in the area of adequate budgeting and taxation, improved regulatory services, improved administrative processes (automation), and reduced cost of currency administration and management (Ashike,2011).

The cashless system which is cultured to the use of e-payment increases profitability through the following ways:

- i. Convenience - removing administrative resources required by invoices, cheque and cash
- ii. Immediacy - credit cards enable instant purchases without delay
- iii. Improved cash flow - payment at the time of purchase reduces the pressure caused by 30days invoicing
- iv. Growth – opens additional payment channels via the phone, mail order, internet and increases customers’ base. More customers means more revenue
- v. Competitive advantages –match and beat the services of competitors and gain the edge

## **SUMMARY AND CONCLUSION**

The introduction of electronic banking in Nigeria has a strong influence on the development of payment system. However, it involves commitment of huge amount of financial resources on computer technology, telecommunication facilities and constant electricity. The ATM has been the best and the most common means of effecting cashless policy in Nigeria by learned and unlearned, poor and rich, so the government should adopt these suggestions in order to achieve desired results like other developed countries.

## **RECOMMENDATIONS**

1. Government should provide uninterrupted power supply and adequate communication link while shortfall should be covered by banks through back-up arrangement to power standby generator in case of power outage;
2. Government should also support banks in the aspect of financing the payment system which requires a lot of capital to maintain;
3. Government and the CBN should create awareness on the benefits derivable from cashless policy for the improvement of businesses and economic development;
4. Skilled manpower and computer experts should be employed by every bank to prevent fraud and hacking of banks’ data to steal customers’ fund;
5. Electronic payment system is capital intensive, therefore banks are encouraged to collaborate to finance some of the infrastructures needed for the smooth implementation of the policy by sharing cost to reduce the initial cost of setting up electronic banking;
6. Government should provide adequate security so as to create safe environment that will make people to imbibe the policy.

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