

EFFECT OF CASHLESS POLICY ON NIGERIA ECONOMIC DEVELOPMENT

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Abstract

This paper examines the effect of cashless policy on the Nigerian economic Development. Nigeria has continued to evolve in different realms. The economy is being transformed, the organizations are being reformed and law makers are being re-examined so as to relocate the nation to take its rightful position in the international community. As a way of fast-tracking the Nigerian economy so as to be among the first 20 world economies come 2030, Nigeria has proposed that come 2012 it will adopt the cashless economic system. In carrying out the study the study introduction of electronic banking in Nigeria has impacted positively on the development of payment system in particular and the banking system in general. The study also finds out that cashless policy has positive relationship with the Nigerian economic development but it would require huge amount of capital on technology and other facilities needed for smooth operation of the policy. The paper therefore recommended that 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,

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INTRODUCTION

The recent development of technological knowhow of financial transactions poses interesting questions for policy makers and financial institutions regarding the suitability of current institutional measures and readiness of instruments to pledge financial stability, efficiency and success of monetary policy. Over the course of history, different forms of payment systems have been in reality. Initially, 'trade by barter' was common; however, the problems of barter such as the double chance of wants necessitated the introduction of various forms of money (Swartz et al, 2004). Nevertheless, analysts have been forecasting the complete demise of study instruments and the emergence of potentially superior auxiliary for cash or monetary exchanges, that is, 'cashless society

According to the CBN, the new cashless policy was introduced for a number of key reasons, including, to drive development and upgrading of our payment system in line with Nigeria 's vision 2030 goal of being amongst the top 20 economies by the year 2030. An efficient and modern payment system is positively connected to the economic development, and is a key enabler for economic growth. To reduce the cost of banking services (including cost of credit) and drive financial inclusion by providing more efficient transaction options and greater reach and to improve the effectiveness of monetary policy in managing inflation and driving economic growth. In addition, the cash 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 and inefficiency & corruption (CBN, Website, 2011).

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 lodgments 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.

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 June1st 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). Regarding this context, the paper seeks to examine the cashless economy by exploring its effect on the Nigerian economic development.

Conceptual Clarifications

Cash Less Economy

Cash Less Economy or an e-payment system is a situation where there is little or very low use of cash in a given society. It is a financial system that establishes that means for transferring money between suppliers and users of funds, usually by exchanging debits or credits between financial institutions.

Economic Development

According to Lin (2017), economic development brings about increase in the volume of resources available to individuals as well as reduces the degree at which people depend on their external family members. This shows that economic development provides ample opportunities to individuals in making informed choices in pursuing autonomy, which would reposition them in taking care of their personal responsibilities better. From the foregoing, economic development facilitates cultural autonomy and egalitarianism. Nevertheless, the study did not identify the indicators of economic development that would help in making developing economies change from being dependent economies to being independent economies. In this study, economic development is seen as the development in different sectors of the economy. It involves efficient economic management, good governance, sustainable development and poverty reduction; all of these are goals to which development stakeholders have to contribute. Economic development is improvement of the way endowments and goods and services are used within (or by) the system to generate new goods and services in order to provide additional consumption and/or investment possibilities to the members of the system.

Empirical Review

Aliyu (2022), wrote on Effect of Cashless Policy on the Nigerian Economy” This study examines the effect of cashless policy on the Nigerian economic growth. Nigeria has continued to evolve in different realms. The economy is being reformed, the institutions are being reshaped and legislations are being re-examined so as to reposition the nation to take its rightful position in the international community. As a way of fast-tracking the Nigerian economy so as to be among the first 20 world economies come 2020, Nigeria has proposed that come 2012 it will adopt the cashless economic system. In carrying out the study the researcher adopted descriptive survey research design in order to make use of primary data using questionnaire as an instrument for data collection. The questionnaires were distributed to a sample size of 310 respondents randomly selected and the data collected were analyzed and the two hypotheses formulated were tested using non-parametric tool of chi square to determine the relationship and effect of the cashless policy on the Nigerian economy. The result of the findings has shown that cashless policy has positive relationship with and effect on Nigerian economy but it would require huge amount of capital on technology and other facilities needed for smooth operation of the policy. The researcher therefore recommended that government in collaboration with CBN and other financial institutions should provide adequate infrastructures, e-payment facilities, securities, steady power supply and adequate enlightenment of people on the benefits and proper usage of the system for effective implementation of the policy in order to ensure economic growth and development in Nigeria otherwise there would be economic decline.

Osazevaru and Yomere (2015) they wrote on “Benefits and Challenges of Nigeria’s Cash-Less Policy” Financial sector reform is an essential ingredient in the economic growth and development process. This is clearly underscored in the literatures linking financial sector growth with economic growth. In recognition of this fact, managers of the Nigerian economy have targeted the banking sector as a channel for implementing economic policy reforms and policy shift. The recent of such economic reforms in the financial sector is the formal introduction of cash-less financial policy in January, 2012. What are the benefits and challenges of this policy vis-à-vis the cash-based policy? Specifically, will other Point of Sales card acceptance services stakeholders attract a significant part of banks’ income in cash-less economy? This is the central thrust of this paper. To address this, secondary data were collected and content analysis applied in data analysis. After factoring in other POS stakeholders share of income, the study found banks’ income higher in cash-less setting than in cash-based arrangement. Thus, the cash-less policy offers immense benefits to the banking sector. It is recommended that appropriate infrastructures and legal support be provided to facilitate the religious implementation of the policy. Haruna (2014), wrote on “An Assessment of Customer Protection and the Challenges of a Cash-Less Economy. (Case Study Unity Bank Plc)”. Cash-less policy is a situation where the volume of the physical cash been used in the economy is reduced rather than total elimination of such. This had been in practice in most advanced countries. However only on Jan1, 2012, the pilot scheme of the policy was introduced as one of the financial services by Central Bank of Nigeria (CBN) in Lagos as a pilot state, been the economic nerve of the country. This policy takes the form of where no one uses cash for major purchases but instead, but instead, credit cards, charge cards, cheques, or direct transfer from one account to another through e-banking or mobile banking. Limits of cash transactions were set for both corporate and individual transactions. An is therefore made to critically appraise the pros and cons of this cashless policy introduced into the Nigerian economy within the context of customer protection and the challenges in a cash less economy (case study Unity Bank Plc. With a view to determine its workability as proposed and introduced by the apex bank of Nigeria. Some recommendations that are considered to aid its success are also made.

Adu (2016), In his work title Cashless Policy and Its Effects on The Nigerian Economy”. The paper discussed the effects of cashless policy on the Nigerian economy, how it was kickstarted 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.

Omotunde, Sunday and John-Dewole (2013) they wrote on the “Impact of Cashless Economy in Nigeria” This paper studied the impact of cashless policy in Nigeria. The policy was introduced by Central Bank of Nigeria (CBN) in December 2011 and was kick-started in Lagos in January 2012. Survey research was adopted with questionnaire as data collection instrument. Responses from the respondents show that cashless policy will increase employment; reduce cash related robbery thereby reducing risk of carrying cash; cashless policy will also reduce cash related corruption and attract more foreign investors to the country. The study, therefore, shows that the introduction of cashless economy in Nigeria can be seen as a step in the right direction. It is expected that its impact will be felt in modernization of Nigeria payment system, reduction in the cost of banking services, reduction in high security and safety risks and also curb banking related corruptions.

Effects of Cashless Policy to the Nigerian Economic Development

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. Reduce cash management costs

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.

vii. 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.

viii. Improving Hygiene:

It has eliminated bacterial spread through handling of notes and coins from one individual to another.

viii. 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.

ix. 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.

x. Reduction in cash circulation:

A cashless system prevents too much of cash in circulation thereby curbing armed robbery and cash related crime.

xi. 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.

Implications of Cashless Policy to the Nigerian Economy

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 5 years 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.

CONCLUSION

The introduction of electronic banking in Nigeria has impacted positively on the development of payment system in particular and the banking system in general. However, it involves commitment of huge amount of financial resources on computer technology, telecommunication facilities and constant electricity. The unbanked will become banked, thereby increasing the customer base of banks. With reduction in the volume of cash in circulation, this will avail banks more deposits to do their businesses which will impact positively on their profits. Also, the cost of banks' operations will considerably reduce.

RECOMMENDATIONS

1. Legal and regulatory framework that will check electronic fraud should be put in place by the government.
2. The mandate of anti-graft agencies like the Economic and Financial Crimes Commission (EFCC) should be expanded to cover fraudulent practices that are associated with operations of cash-less economy.
3. Government should also support banks in the aspect of financing the payment system which requires a lot of capital to maintain.
4. Government and the CBN should create awareness on the benefits derivable from cashless policy for the improvement of businesses and economic development.
5. Skilled manpower and computer experts should be employed by every bank to prevent fraud and hacking of banks' data to steal customers' fund.

6. In addition, the policy should have local content by ensuring that it is in tune with fundamental economic policy of Nigeria founded on socio-cultural ideals of Nigerians.
7. 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.
8. Government should provide adequate security so as to create safe environment that will make people to imbibe the policy.
9. 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.

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